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Politics this week

Dec 7th 2006
From The Economist print edition

Reuters

A report on **Iraq** by a panel of foreign-policy experts headed by a former American secretary of state, James Baker, and a former congressman, Lee Hamilton, recommended that George Bush's administration should start reducing the number of American troops there—bar unforeseen circumstances—by the spring of 2008. Their primary mission should be to bolster and train the Iraqi army. See article

The report also called urgently for a Middle East regional summit, including **Syria** and **Iran** and addressing such thorny issues as **Palestine**. Mr Bush did not say whether he would heed the report's findings but said he would take them “very seriously”.

Robert Gates received the approval of the Senate to become America's new defence secretary. Eyebrows were raised at Mr Gates's stark assessment that America was not winning the war in Iraq, a contradiction to recent statements made by his boss.

Hundreds of humanitarian workers were evacuated from el-Fasher, capital of the **Sudanese** state of North Darfur, after clashes between government-backed *janjaweed* militias and rebels. The town is the hub of the government's counter-insurgency campaign in the area and a UN-aid base. See article

According to preliminary results, **Madagascar**'s incumbent president, Marc Ravalomanana, a dairy tycoon, won a new five-year mandate in a presidential poll on December 3rd. See article

Joseph Kabila was sworn in as **Congo's** first freely elected president in more than 40 years. He defeated his rival, Jean-Pierre Bemba, in a run-off election last month.

A new reality sinks in

John Bolton resigned as America's ambassador to the United Nations. The diplomat, who has had a prickly relationship with the world body, was given the job by Mr Bush on a temporary basis and needed to be approved by the Senate, an unlikely proposition given that the Democrats, who will soon control the chamber, blocked his permanent appointment last year. See article

Nancy Pelosi, the incoming speaker in the House of Representatives, tried to smooth things over with some of her colleagues after she bypassed the two most senior Democratic congressmen on the intelligence committee to appoint Silvestre Reyes as its chairman. The two senior contenders had been backed by, respectively, the party's “Blue Dog” conservative coalition and the black caucus.

NASA, America's space agency, revealed that it intends to build a permanent manned base on **the moon**. Construction work is planned to start in 2020, once a new breed of rockets to deliver people and components there has been designed and tested.

Hurricane Hugo

AP

Hugo Chávez, **Venezuela's** left-wing president, won a resounding victory in his country's presidential election. With nearly all votes counted, he had won 63% to 37% for Manuel Rosales, his social-democratic opponent. See article

General **Augusto Pinochet**, Chile's elderly former dictator, was rushed to

hospital after a heart attack. Following surgery, he appeared to recover.

Felipe Calderón took office as **Mexico's** president, and announced cuts in his own and other public-sector salaries to finance an increase in spending on health care and fighting crime. See article

Canada's Liberal Party, the main opposition, chose Stéphane Dion, a former academic and cabinet minister from Quebec, as its leader in preference to Michael Ignatieff, a writer and journalist, and two other candidates. See article

All in a flap

The spat between **Turkey** and the **European Union** continued to reverberate around Europe. The leaders of France and Germany called for a further review in 15 months' time. A last-ditch offer by Turkey to open one port and one airport to (Greek) Cyprus seemed unlikely to succeed. See article

Finland, which currently holds the European Union presidency, is to become the 16th out of 25 members to ratify the draft EU constitutional treaty. The German presidency early next year promises to find some way of reviving the treaty, which was rejected by French and Dutch voters in the summer of 2005.

France launched its much-hyped international television news channel, France 24. The aim of the channel, which is government-financed, is to challenge Anglo-American channels such as CNN and BBC World. France 24 will broadcast in French and English; later an Arabic channel will be added.

British police went to Moscow to investigate the murder of **Alexander Litvinenko**. But they were told by Russian authorities that they could neither make arrests of, nor seek to extradite, any Russian nationals. Traces of polonium, the radioactive substance used to kill Mr Litvinenko, were found at the British Embassy in Moscow. See article

Brutal weather

Hundreds of people died in **the Philippines** as Typhoon Durian caused torrential mudslides from the slopes of Mayon volcano. The storm later went on to pound Vietnam's south coast. See article

A court in the Philippines capital Manila sentenced an **American marine** to up to 40 years in prison for raping a local woman last November. America and the Philippines squabbled over custody of the marine during his appeal. See article

Frank Bainimarama, commander of **Fiji's** armed forces, staged a coup against the government of Laisenia Qarase. Although the coup was widely condemned, John Howard, Australia's prime minister, ruled out military intervention. See article

AFP

The Labor Party, **Australia's** main opposition, voted out its leader, Kim Beazley, and replaced him with Kevin Rudd, the party's foreign-affairs spokesman. See article

As prospects for a revival of the peace process continue to worsen, **Sri Lanka's** government announced sweeping anti-terrorism measures. But it stopped short of banning the Liberation Tigers of Tamil Eelam. Despite a 2002 “ceasefire”, more than 3,400 people have died in fighting this year.

The opposition in **Bangladesh** called off its latest strike and blockade, which yet again had brought the capital, Dhaka, to a standstill in protest at alleged efforts to rig the election due in January. See article

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Business this week

Dec 7th 2006
From The Economist print edition

Pfizer's share price plunged after higher-than-expected mortality and side effects reported during a clinical trial led it to scrap a drug it had been developing since 1992. Torcetrapib boosted "good" cholesterol and had been touted by the company's head of research as the biggest advance in cardiovascular medicine in years just two days before he pulled the plug. The decision leaves Pfizer without anything in the highly lucrative cholesterol-drug market to replace Lipitor when its patent expires in 2010. See article

Two of America's most venerable financial institutions agreed to merge in a $16.5 billion deal. The combination of **Bank of New York**, which Alexander Hamilton helped to set up in 1784 before he became America's first treasury secretary, and **Mellon Financial**, founded in Pittsburgh in 1869, creates the world's biggest firm in the business of safeguarding and administering securities, with $16.6 trillion in assets under custody. See article

The merger of **NYSE Group**, owner of the New York Stock Exchange, and **Euronext**, operator of several European stockmarkets, came a step closer when it was approved by regulators in Europe. The deal has faced opposition from those who claim it will lead to American financial regulations being imposed on Europe, which NYSE and Euronext addressed by creating a regulatory structure to assure the independence of the European exchanges. The decisive hurdle for the deal is a vote by Euronext's shareholders on December 19th.

Ups and downs

Airbus launched the delayed A350XWB (bad reviews led to a redesign). The jet will enter service in 2013 and is crucial to troubled Airbus in its competition with Boeing. However, Airbus's cheerier mood was dampened when Lufthansa, a reliable customer, decided not to add to its order of A380 super-jumbos and went with an updated version of Boeing's 747 instead. See article

The Italian government confirmed it would sell part of its 49.9% stake in **Alitalia**. The size of the chunk it is selling, 30.1%, is bigger than had been indicated, but conditions were attached to the sale including job security at the airline.

NTL, a cable and telephone operator, abandoned its attempt to win control of **ITV**, Britain's biggest commercial broadcaster. NTL's plans were scuppered when BSkyB, a rival television company that is part of Rupert Murdoch's News Corp, took a 17.9% stake in ITV. NTL complained to regulators about what it says are the "serious competition and public interest issues" of BSkyB's stake.

Gallaher confirmed it had received a preliminary takeover approach, speculated to be from **Japan Tobacco**. The British tobacco firm, valued at some $15 billion, has expanded its business in Russia and is an attractive target for cigarette-makers wishing to peddle their wares outside America and Europe, where smoking is on the decline.

The **Hard Rock** chain of restaurants and casinos was sold to a subsidiary of the **Seminole Tribe of Florida**, which pioneered the opening of casinos on Native American land, for $965m. Rank, the sellers of Hard Rock, want to concentrate on their gambling businesses in Britain.

A recipe for success?

The chief executive of **Yahoo!** restructured its senior management and created a new unit that will focus entirely on advertising sales. Concern about the company's future revenue from advertising is one reason behind the 30% fall in its share price this year. The management shake-up was nicknamed "Project

Soufflé”.

Meanwhile, a new venture was unveiled between Yahoo! and Reuters to use amateur images from events such as the Asian tsunami and London tube bombings in online news reports. Material uploaded to **You Witness** will still be seen by editors.

LSI Logic, a chipmaker that specialises in semiconductors for DVD recorders, data storage devices and personal music players, said it would buy **Agere Systems**, an integrated-circuit components company, for $4 billion. The deal gives LSI a presence in the market for mobile-phone chips.

The fall in America's housing market hurt profit at **Toll Brothers**, a builder of luxury homes, which reported that net income had dropped by 44% in the three months to October 31st compared with a year earlier. However, Toll Brothers' share price rose after its boss said the market was “dancing on the bottom or slightly above” and appeared to be stabilising.

What to make of it

New orders for **manufactured goods** at America's factories dropped by 4.7% in October compared with the previous month, the biggest fall since July 2000. Orders for durable goods fell by 8.2%.

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Iraq

Don't do it

Dec 7th 2006
From The Economist print edition

The Baker-Hamilton group wants to set a date for leaving Iraq. George Bush should say no

IT IS not quite a coup d'état. But seldom before has the American Congress—or, more correctly, a bipartisan committee of wise men and women reporting to Congress—put a wartime president in such an awkward predicament. James Baker, Lee Hamilton and their Iraq Study Group said this week that if George Bush adopted their 79-point plan for Iraq, the bulk of America's fighting troops could be out of the country by the first quarter of 2008—that is to say within 15 months or so.

This is not, the wise men said, a policy of cutting and running. On the contrary, Mr Hamilton, a former Democratic congressman, said as he presented the report that the group supported Mr Bush's declared aim of creating an Iraq that is able to govern, sustain and defend itself (see article). Mr Baker, a former secretary of state and a long-time friend of the Bush family, acknowledged that a precipitous withdrawal could cause a bloodbath inside Iraq and perhaps provoke a wider regional war. But the wise men also say—and who could disagree?—that America's army should not remain in Iraq indefinitely, in an “open-ended” commitment. So the idea of leaving by early 2008 is a compromise.

The Baker-Hamilton analysis of what has gone wrong feels right. It is that Iraq is sliding into a sectarian war mainly because its fractious politicians have not been willing to make the concessions needed to achieve national reconciliation. In particular, the Shias and their Kurdish allies have not done enough to allay the fears of the previously dominant Sunni minority that they are being excluded and disadvantaged under the new order. But the group strays on to much more treacherous ground when it proposes a way to correct this.

Do what we say or we go (but we're going anyway)

Its central recommendation is that America should use its muscle in Iraq to put pressure on its elected government to make concessions to the Sunnis. Indeed, the group wants Mr Bush to give Iraq's prime minister, Nuri al-Maliki, a list of reconciliation “milestones”, such as softening the rules on de-Baathification, agreeing on a fairer way of sharing oil revenues and revising Iraq's new constitution in ways that allay the other fears of the Sunnis. The wise men say that if the Iraqi government fails to make substantial progress on this, and on improving its performance generally, America should reduce or remove its political, economic and military support.

Fine, in principle. Having spent so many lives and dollars on Iraq, why shouldn't America shove its government towards reconciliation? That is what America's energetic ambassador in Baghdad has been trying to do behind the scenes for many months. The odd thing about the Baker-Hamilton group's idea is that it wants Mr Bush to do this shoving after he has already thrown away his principal means of persuasion.

If Mr Bush adopts the plan, Iraqis will know that the bulk of America's forces will be out by early 2008. If opinion polls are to be believed, that will delight many Americans as well as many people in Iraq. By thinning out its army, America will reduce the Iraqis' sense that they are under occupation, and so suck some of the oxygen out of the anti-American insurgency. But the Baker-Hamilton group is surely wrong to believe that announcing the army's departure will strengthen America's leverage over the internal

politics of Iraq. The opposite is likelier. Mr Bush, a lame-duck president, would be a lame-duck president presiding over a lame-duck occupation.

In fairness, the group is not advocating a complete withdrawal. Some 15,000 American soldiers would stay behind to train the Iraqis, as would some rapid-reaction troops, and special forces to lead the hunt for al-Qaeda. If the Iraqi government performs, it will still receive political and economic support. The wise men hope these will be inducement enough for Mr Maliki to do as America says. Hope is all it can be. At present, the American army is the only strong military force capable of holding the ring in Iraq. Pulling it out may merely encourage a vicious fight to fill the vacuum.

But at least it's a plan

The best argument for the Baker-Hamilton report is that the present strategy is failing. It will soon be four years since the invasion. Iraq is now so violent that many Iraqis think life was better under Saddam Hussein. Robert Gates, Mr Bush's own choice to replace Donald Rumsfeld as defence secretary, said candidly to Congress this week that America wasn't winning. Haunted not only by their losses—nearly 3,000 soldiers dead—but a sense of being unwelcome and making matters worse, the American people are aching to put the whole misadventure behind them. Now that a powerful, bipartisan committee has dangled the possibility of doing just that within little over a year, it would take extraordinary stubbornness—or courage—from Mr Bush to ignore it.

He should not ignore it. The report contains many useful recommendations. These include the proposals to enlist the help of Iraq's neighbours and for bolder peacemaking in Palestine. It would be a mistake to expect instant results. For example, Baker-Hamilton proposes talks between Israel and those Palestinians who recognise its right to exist—but the Palestinians' present Hamas government refuses to recognise Israel's right to exist. As for Iran and Syria, they have little reason to help an America that insists rightly on preventing Syria from intimidating Lebanon and Iran from acquiring nuclear weapons. All the same, it does no harm for America to be seen to be working with an open mind and flexible diplomacy.

What will not help is scuttling from Iraq before exhausting every possible effort to put the country back together. The Baker-Hamilton group is right to say that America should neither leave precipitously nor stay forever. Leaning harder on Iraq's politicians is an excellent idea. But setting an arbitrary deadline of early 2008 for most of the soldiers to depart risks weakening America's bargaining power, intensifying instead of dampening the fighting and projecting an image of weakness that will embolden enemies everywhere. On this recommendation, Mr Bush needs to insist on his prerogatives as custodian of America's foreign policy and just say no.

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Ethical food

Good food?

Dec 7th 2006
From The Economist print edition

If you think you can make the planet better by clever shopping, think again. You might make it worse

"You don't have to wait for government to move... the really fantastic thing about Fairtrade is that you can go shopping!" So said a representative of the Fairtrade movement in a British newspaper this year. Similarly Marion Nestle, a nutritionist at New York University, argues that "when you choose organics, you are voting for a planet with fewer pesticides, richer soil and cleaner water supplies."

The idea that shopping is the new politics is certainly seductive. Never mind the ballot box: vote with your supermarket trolley instead. Elections occur relatively rarely, but you probably go shopping several times a month, providing yourself with lots of opportunities to express your opinions. If you are worried about the environment, you might buy organic food; if you want to help poor farmers, you can do your bit by buying Fairtrade products; or you can express a dislike of evil multinational companies and rampant globalisation by buying only local produce. And the best bit is that shopping, unlike voting, is fun; so you can do good and enjoy yourself at the same time.

Sadly, it's not that easy. There are good reasons to doubt the claims made about three of the most popular varieties of "ethical" food: organic food, Fairtrade food and local food (see article). People who want to make the world a better place cannot do so by shifting their shopping habits: transforming the planet requires duller disciplines, like politics.

Buy organic, destroy the rainforest

Organic food, which is grown without man-made pesticides and fertilisers, is generally assumed to be more environmentally friendly than conventional intensive farming, which is heavily reliant on chemical inputs. But it all depends what you mean by "environmentally friendly". Farming is inherently bad for the environment: since humans took it up around 11,000 years ago, the result has been deforestation on a massive scale. But following the "green revolution" of the 1960s greater use of chemical fertiliser has tripled grain yields with very little increase in the area of land under cultivation. Organic methods, which rely on crop rotation, manure and compost in place of fertiliser, are far less intensive. So producing the world's current agricultural output organically would require several times as much land as is currently cultivated. There wouldn't be much room left for the rainforest.

Fairtrade food is designed to raise poor farmers' incomes. It is sold at a higher price than ordinary food, with a subsidy passed back to the farmer. But prices of agricultural commodities are low because of overproduction. By propping up the price, the Fairtrade system encourages farmers to produce more of these commodities rather than diversifying into other crops and so depresses prices—thus achieving, for most farmers, exactly the opposite of what the initiative is intended to do. And since only a small fraction of the mark-up on Fairtrade foods actually goes to the farmer—most goes to the retailer—the system gives rich consumers an inflated impression of their largesse and makes alleviating poverty seem too easy.

Surely the case for local food, produced as close as possible to the consumer in order to minimise "food miles" and, by extension, carbon emissions, is clear? Surprisingly, it is not. A study of Britain's food

system found that nearly half of food-vehicle miles (ie, miles travelled by vehicles carrying food) were driven by cars going to and from the shops. Most people live closer to a supermarket than a farmer's market, so more local food could mean more food-vehicle miles. Moving food around in big, carefully packed lorries, as supermarkets do, may in fact be the most efficient way to transport the stuff.

What's more, once the energy used in production as well as transport is taken into account, local food may turn out to be even less green. Producing lamb in New Zealand and shipping it to Britain uses less energy than producing British lamb, because farming in New Zealand is less energy-intensive. And the local-food movement's aims, of course, contradict those of the Fairtrade movement, by discouraging rich-country consumers from buying poor-country produce. But since the local-food movement looks suspiciously like old-fashioned protectionism masquerading as concern for the environment, helping poor countries is presumably not the point.

Appetite for change

The aims of much of the ethical-food movement—to protect the environment, to encourage development and to redress the distortions in global trade—are admirable. The problems lie in the means, not the ends. No amount of Fairtrade coffee will eliminate poverty, and all the organic asparagus in the world will not save the planet. Some of the stuff sold under an ethical label may even leave the world in a worse state and its poor farmers poorer than they otherwise would be.

So what should the ethically minded consumer do? Things that are less fun than shopping, alas. Real change will require action by governments, in the form of a global carbon tax; reform of the world trade system; and the abolition of agricultural tariffs and subsidies, notably Europe's monstrous common agricultural policy, which coddles rich farmers and prices those in the poor world out of the European market. Proper free trade would be by far the best way to help poor farmers. Taxing carbon would price the cost of emissions into the price of goods, and retailers would then have an incentive to source locally if it saved energy. But these changes will come about only through difficult, international, political deals that the world's governments have so far failed to do.

The best thing about the spread of the ethical-food movement is that it offers grounds for hope. It sends a signal that there is an enormous appetite for change and widespread frustration that governments are not doing enough to preserve the environment, reform world trade or encourage development. Which suggests that, if politicians put these options on the political menu, people might support them. The idea of changing the world by voting with your trolley may be beguiling. But if consumers really want to make a difference, it is at the ballot box that they need to vote.

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Sudan

Keep crying out

Dec 7th 2006
From The Economist print edition

Outsiders must still try to avert a catastrophe

AP

Get article background

IT IS hard to find a crueller or more duplicitous government than Sudan's. According to its president, Omar al-Bashir, there is really not very much going on in his country's western region of Darfur. Yet humanitarian groups estimate that some 300,000 people have been killed or died as a result of the conflict there and at least 2m more have been driven from their homes in the past four years, mostly by government soldiers and allied Arab militias, which continue to raze villages and terrorise Darfur's civilians. To be sure, the rebel forces are often no kinder, and banditry is rife. The UN is feeding some 3m people, half of Darfur's population. Meanwhile Sudan's president breezily claims that barely 9,000 have been killed in the conflict. Westerners, he says, exaggerate the figures as a pretext for invading a Muslim country; aid agencies masquerade as charities to enrich themselves.

Not that Mr Bashir is minded to let independent outsiders see things for themselves. He has imposed a virtual news blackout about the region. Almost no bona fide journalists are allowed there, except under tight official control. Most aid agencies operating in Darfur that have tried to tell the world what is happening, including most recently the Norwegian Refugee Council, have been expelled. Sudan's rulers would rather the world turned its gaze on the glittering economic opportunities to be had in Khartoum, the capital, where the proceeds of an oil bonanza are being poured into shiny skyscrapers intended to emulate Dubai.

The government is also dragging its feet over the implementation of a hard-won accord reached two years ago to bring peace to Sudan's other shattered region, the south, where at least 2m people died in a civil war that persisted, more on than off, for decades, between the country's Arab rulers and its Christian and animist southerners. The fate of Sudan's two embattled regions—the west and the south—is entwined (see article). Chaos in one area is likely to spread to the other. Since 2004, the south has been more or less at peace. If the accord survives, the south could become independent, after a referendum due in 2011. But if Darfur remains a killing field, the chance of the south staying peaceful is small.

Where foreigners should not fear to tread

Contrary to Mr Bashir's assertions, foreigners—and a lot more of them—are sorely needed to help dampen the conflict in the west and maintain the peace in the south. Last week, after a year of concerted international pressure, his government agreed to let a small UN contingent into Darfur to help bolster the rickety 7,000-strong African Union force there, which has sadly failed to assert itself. That is a good, if belated, start. But the UN must keep pressing for a much bigger and more robust force under its own command. In addition, UN and French troops could be deployed in neighbouring Chad, on the border with Darfur, to stop Sudan's regime helping Chadian rebels to topple the government there and create more chaos on both sides of the border. Just as important, the UN, probably with NATO support, could operate out of Chad to enforce a no-fly zone over Darfur.

Yet the wrangling over Darfur should not divert attention from southern Sudan. The UN, along with

Sudan's neighbours, should increase every sort of help to the southerners in their effort to rebuild their region, however reluctant Mr Bashir is to let it prosper on its own.

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Global imbalances

Petrodollar power

Dec 7th 2006
From The Economist print edition

Why Henry Paulson should have gone to the Middle East not China

THAT two-thirds of the world's oil comes from troubled emerging economies is worrying enough. Less noticed, and more alarming, is the growing financial clout of places like the Middle East, Russia and Venezuela as a result of sustained high oil prices and their build-up of foreign assets.

With America fixated on China, this matter is not widely discussed. A visit by Henry Paulson, America's treasury secretary, and a high-ranking team of policymakers to Beijing on December 14th to urge China to shrink its current-account surplus of around $200 billion this year is a symptom of the excessive attention paid to China's surplus and the supposedly undervalued yuan in the debate about global imbalances.

China's surplus is dwarfed by those of oil-exporting emerging economies, which are expected to total $500 billion, over half of it in the Middle East (see article). Relative to their economies, the oil producers' external surpluses look even bigger: Saudi Arabia, the UAE and Kuwait have an average surplus of around 30% of GDP, making China's 8% seem almost modest. These surpluses are having a huge impact on international capital flows; and they may, unless the right policy prescriptions are applied, undermine efforts to unwind global imbalances in an orderly way.

The surge in oil revenues over the past four years is perhaps the biggest windfall ever enjoyed by a group of countries. In real terms, the oil exporters' current-account surplus is more than twice as big as it was at its peak in the 1970s' oil-price shocks. According to the IMF, the cumulative surpluses of oil exporters could amount to $1.7 trillion in the five years to 2007, swamping China's likely stash of $700 billion.

Previous periods of expensive oil and bumper surpluses did not last long, but this one may prove more durable. Although prices have recently dipped, most analysts expect the tightness of oil supplies to keep the average price close to $60 a barrel—three times the average level in the 1990s. Oil exporters are also spending a smaller share of their windfalls on imports than in past booms and instead saving more. As oil prices stabilise and imports pick up, current-account surpluses will shrink, but remain unusually large.

The petrodollar explosion has two main consequences. First, it is one of the principal causes of the liquidity that is stirring up frothy financial markets. Middle Eastern money is much harder to track than Chinese capital, because a large chunk of foreign assets are held not as official reserves but in secretive government investment funds. Moreover, whereas China buys American treasury securities direct from American brokers or dealers, Middle Eastern purchases of bonds are typically channelled through intermediaries in London, hiding their true ownership. Oil surpluses are also flooding into equities, hedge funds, private equity and property. In the 1970s petrodollars were deposited in western banks, which lent too many of them to developing countries and thus sowed the seeds of Latin America's debt crisis. Today, given the complexity of modern capital markets, the flood of money may be storing up different sorts of trouble.

Second, Middle Eastern countries, just like China, have been preventing the global economy from rebalancing itself. But whereas China is at last moving slowly towards a more flexible exchange-rate, the currencies of Saudi Arabia, Kuwait, the UAE and most other Gulf economies are still firmly pegged to the

dollar—and are possibly more undervalued than the yuan, given the huge gains in their terms of trade.

Dragged down by the dollar

The dollar peg means that, as the price of oil has soared, those currencies' real trade-weighted exchange rates have, perversely, fallen. This is pushing up inflation and stoking asset-price and credit bubbles in their domestic economies. Pegging those currencies to the weak dollar also dampens demand for imports in their economies, and thus hinders the rebalancing of global current accounts. Higher levels of both imports and government spending by the oil-producing countries would help unwind the imbalances that endanger the world's economic stability.

Nor will the Middle Easterners' attachment to the dollar keep it stable. The government investment funds that manage much of the oil money are not subject to the constraints on holding liquid assets that China's central bank is. Their risk-and-return profile is closer to that of private investors. Thus, if the dollar looks likely to continue its slide, oil exporters are more likely to diversify out of dollars than China is.

American voters have got it in for China at the moment. All manner of economic ills are attributed to the place. That, no doubt, is why Mr Paulson is going there. But although his trip may pay political dividends, if he wants to improve America's economic prospects, he should cut short the China visit and drop in on the Middle East on his way home.

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Latin America

It's democracy, stupid

Dec 7th 2006
From The Economist print edition

A plethora of elections has produced a vote for moderate change

AT OPPOSITE ends of Latin America, two iconic dictators appeared this week to be entering their final days. In Cuba, Fidel Castro failed to appear for the official celebrations marking his 80th birthday, postponed from August after his operation for "severe intestinal bleeding". In Chile, Augusto Pinochet was rushed to hospital after a heart attack. Polar opposites in their politics, Mr Castro and General Pinochet both held out against the democratic wave which swept over Latin America in the 1980s (Chile embraced democracy in 1989, Cuba has yet to do so). Their status as relics was all the clearer in a week that saw the final chapter in an electoral saga of presidential votes in no fewer than 12 Latin American countries over the past 13 months. The underlying message from this votathon is that democracy has growing appeal because it is improving people's lives around the region.

That may sound odd. There has been much talk of a "red tide" sweeping Latin America, a region that is said to be rising up against presumed domination by the United States. The latest election was in Venezuela, where Hugo Chávez, who propounds such a vision, won a sweeping victory, with 63% of the vote. The past six weeks have seen the election of two friends of Mr Chávez, Daniel Ortega in Nicaragua and Rafael Correa in Ecuador.

Yet look at the bigger picture, and the elections confirmed the ascendancy not of tub-thumping anti-American populists but of the moderate centre-left. Such candidates won in six countries, including Brazil, Chile and Peru. In another two of the bigger countries, Colombia and Mexico, the centre-right was victorious. Mr Chávez's victory and the election of Evo Morales in Bolivia were the only clear triumphs for the far left. Mr Ortega won fewer votes than at the previous election, but profited from a split in the ruling Liberal party. Mr Correa won a run-off only after he moved sharply to the centre.

It's going quite well, thanks

The social-democratic governments in the region do not necessarily follow the United States on everything, and sometimes make common cause with Mr Chávez. That is hardly surprising: after all, the cold war ended years ago, even if some on the left and a few in Washington, DC, seem not to have noticed. But the differences among the left-of-centre governments are far more important than the similarities.

The new consensus in the region is not the one Mr Chávez likes to trumpet. It keeps the emphasis on low inflation and open market economies along the lines of the "Washington consensus", and adds to that activist social policies with the aim of tackling Latin America's burden of poverty and inequality. Helped by three years of economic growth driven in part by high prices for the region's commodity exports, this new consensus is slowly starting to have its effect.

The latest Latinobarómetro poll of public attitudes across 18 countries in the region, published exclusively in *The Economist* this week, shows a welcome increase in support for democracy and in satisfaction with its practical workings (see article). This is reflected, too, in the renewed popularity of incumbents: as well as Mr Chávez, Brazil's Luiz Inácio Lula da Silva and Colombia's Álvaro Uribe won re-election. In Mexico Felipe Calderón, a moderate conservative, narrowly defeated a challenge from the left in part because

the outgoing conservative government mounted an effective anti-poverty programme (subsequently copied by Lula in Brazil).

Many Latin Americans have begun to benefit from economic stability and from democracy, yet many have not and feel left behind. That defines the task facing the new governments. Those who cleave to the new consensus will try to reduce dependence on commodities and boost growth by encouraging private investment. They will also seek to strengthen democratic institutions.

Where such institutions are weak, and especially where there are oil and gas revenues which can be redistributed, populist leaders such as Mr Chávez have emerged. But the abiding lesson of the past year is that such populists—still less anachronistic authoritarians such as Mr Castro or General Pinochet—do not speak for the majority of Latin Americans.

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Britain and the bomb

Keep on cutting

Dec 7th 2006
From The Economist print edition

But this isn't the moment to disarm altogether

Getty Images

THE ultimate guarantor of Britain's future security that it would be unwise to give up? Or an immoral weapon held onto illegally against an irrelevant threat? A principled debate about Britain's nuclear deterrent is something the Labour government would prefer to avoid. Instead, in three months Parliament will be asked to say yes or no to the cabinet's proposal to build new submarines able to carry Britain's nuclear-tipped Trident missiles—and their successors—into the second half of the 21st century (see article). With the opposition Conservatives also backing Trident, the result of the vote is not in doubt. Yet a broader debate could help clear some of the misconceptions and hypocrisy that surround the nuclear issue, and not just in Britain.

Those who campaigned against nuclear weapons during the cold war are unlikely to change their tune. But these days they have been joined by less ideological types, who worry that nuclear weapons are expensive toys designed to deal with outdated threats. What's more, Britain is committed, as one of the five recognised nuclear powers (along with America, Russia, France and China) under the Nuclear Non-Proliferation Treaty, to work towards eventual nuclear disarmament. In those circumstances, the argument goes, modernising Trident is probably provocative and possibly illegal. Britain would do better to give up its bomb, in the hope of encouraging others—including India, Pakistan and Israel, which built bombs outside the NPT, as well as treaty-breakers North Korea and Iran—to do likewise.

True, America's nuclear weapons did not deter al-Qaeda on September 11th 2001, and Britain's will not deter atrocities like the 2005 bombing of the London underground. Why then hang on to weapons that anyway haven't been used in 60 years? One answer is that Britain's nuclear weapons are not meant to deter terrorists—or even to be used like other weapons of war. They could discourage hostile governments not just from launching a direct nuclear (or chemical or biological or radiological) attack, which could invite devastating retaliation, but also from passing weapons or materials to a terrorist group in the hope of causing second-hand mayhem.

Far-fetched? So, once, was the idea of flying packed aircraft into buildings. The wider weapons technologies and materials spread, the greater the risk of a nuclear 9/11. The NPT still recognises just the five original nuclear powers, but nine countries have now built nuclear weapons. If Iran succeeds in building a bomb, as it is suspected of trying to do, Egypt, Saudi Arabia, Syria and Turkey will want one too.

In other words, if ever there is to be a disarming moment of the sort the NPT looked forward to, this is not it. But that does not give Britain or any other of the official nuclear five leave just to sit on their bombs. The many governments that have kept their non-nuclear end of the bargain rightly expect the nuclear five at the very least to keep numbers to a minimum. Since the cold war, tallies of warheads have shrunk dramatically in America, Russia, Britain and France (China's stockpile still grows, from a lowish base); Britain's future stockpile of fewer than 160 warheads will be the smallest. But a lot more could yet be done to show NPT-willing.

As low as you can go

America and Russia, with by far the biggest arsenals (between 1,700 and 2,200 deployed strategic

warheads apiece by 2010), could go a lot lower, and should talk more about how to do it. France, unlike Britain, has yet to agree that, as numbers fall, its weapons will eventually be on the negotiating table too. China unhelpfully keeps its nuclear plans to itself. Meanwhile, America and China still have not ratified the treaty to ban all weapons tests. And serious work is needed to cap production worldwide of bomb-usable fissile materials.

Unilateral disarmament by Britain would not shock India or Israel or Iran into dropping their nuclear ambitions. Those are driven instead by rivalries closer to home. Meanwhile, the weapons Britain does keep, as before, will need periodic modernisation to improve safety and reliability. Far from undermining the NPT, confidence that weapons will work as intended is the way to keep numbers low.

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On energy security, China's market for cars, the veil, roundabouts

Dec 7th 2006
From The Economist print edition

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A secure energy future

SIR – Your report on investing in clean energy highlights the fact that public and political support for renewable energy may wane when the cost is perceived to be too high ("Tilting at windmills", November 18th). However, the case for government subsidies and mandates to compensate for failure in energy markets is strong. For instance, the price Americans pay for oil does not cover the risks to the economy from delivery disruptions, price spikes, the vast expenditures required to protect supply routes and infrastructure, or the risk premium for the social tumult that could result from climate change.

Likewise, the foreign-policy priorities of America and her allies are endangered by current global trends. Oil-rich authoritarian regimes use their revenues to stymie opposition and fund anti-Western appeals, energy-poor nations struggle to pay their rising oil and gas bills and terrorists have targeted energy infrastructure. Energy reserves are coming under the tighter control of governments, resulting in supply decisions that are based on politics, not market logic, and this changes geopolitics. Our relationship with Russia has already been redefined: Brazil, China, India and others will follow suit.

Breaking our dependence on oil through the use of renewable energy and efficiency is not something we should do because of "green idealism". It is a necessity for our economic and social security. Whether the cost of subsidies is "too high" cannot be judged in a vacuum: it must be weighed against the calamitous consequences of doing nothing, and the enormous gains in security and economic and environmental well-being that will result from a sustained long-term effort that the market cannot currently provide. So although it is correct to say that the public will not support wasteful subsidies, it is up to politicians to convince the voters that these expenses are neither a waste nor a luxury, but are essential to avert political, economic and environmental disaster.

Richard Lugar
Chairman
Foreign Relations Committee
United States Senate
Washington, DC

SIR – I was intrigued by your statement that solar-power units "should last for decades" ("Dionysus, meet Helios", November 18th). There is little research demonstrating the economic sustainability (ie, without subsidies) of solar panels over decades of use and there is no consensus about their actual lifespan. It is also questionable whether solar panels are significantly better for the environment than fossil fuels. Silicon fabrication factories are energy and water intensive and the manufacture of silicon wafers uses energy from traditional fossil-fuel power generators, with the same old pollution. Add the potential problems of disposal towards the end of a panel's life—they are frequently doped with toxic materials like arsenic—and solar power hardly seems like the environmentally benign solution it is often touted to be.

Peijing The
Singapore

Stuck in bottom gear

SIR – I think the observations at the end of your otherwise very interesting article on carmakers in China are wrong ("The fast and the furious", November 25th). You said that the Chinese market for cars will

mature as “buyers begin to value brands and quality, and a second-hand market develops”. This ignores the fact that China's consumers put a value on brands primarily for status; “quality” brands have yet to make any headway. The media, which have the means to investigate and weigh up a product's quality, are widely mistrusted because of corruption and “advertorials”—advertisements masquerading as news items. Moreover, it is unlikely that a second-hand car market will develop soon. This is a country in which buying a house that has been previously occupied is looked down upon. Buying a car in China will remain an aspirational choice, not a rational economic choice, for many years. A market will develop for new and second-hand cars, but it will not be anything like as deep or transparent as that in the West.

Philip Hand
Xiamen, China

A faceless society

SIR – You put forward several arguments against banning the face-covering Muslim veil in public, but there is an additional reason—perhaps the most compelling one—why a ban should be considered (“No burqa bans”, November 25th). In an era in which thoughts about public safety are paramount, the covering of one's face would make it harder to identify who was responsible for a particular crime. Our faces form the biggest part of our identity. This consideration goes beyond all the others you have mentioned, as it remains valid regardless of any racial or nationalistic issue.

Enrico Bracesco
London

SIR – Nowhere in the Koran is a full veil prescribed for women and it is widely accepted by scholars that it is a relic of male-dominated traditional society. If anything, Muslim cultural norms in favour of the veil are a hallmark of Islam's institutional and doctrinal separation of the sexes. Such separation is a direct contradiction of European norms of equality and human rights. Any acceptance by Europeans that such separation can co-exist with equality ignores the vital lessons from America's history of racial segregation, expressed in the Supreme Court's 1954 decision in *Brown v Board of Education*, that separate can never be equal.

ERDAL RIZA DERVIS
Washington, DC

At a junction

SIR – First, you didn't think global warming was a serious threat. Next, you gushingly supported the war in Iraq. Now, you've blown another of the most important stories of this century. Had you investigated your exciting story on traffic roundabouts in Canada you would know that we've had them for 20 years in Edmonton (“Joining the rotary club”, November 11th).

Scott Parker
Edmonton, Canada

SIR – It is a bit of an understatement to say that “pedestrians were afraid to cross a roundabout in Montreal”. Pedestrians in Montreal are afraid to cross anywhere.

Peter Longfield
Toronto

SIR – The addition of roundabouts will only present a different kind of challenge when trying to get to the other side of the road.

Nicolas Laios
Montreal

SIR – Hundreds of traffic circles were constructed in New England prior to 1960. These were and are sometimes called roundabouts but are also referred to as rotaries and circles. A much-maligned circle at the entrance to Cape Cod has just been replaced, leading many to hope that next year's heavy Cape traffic will flow more smoothly.

Brian Straub
Queensbury, New York

SIR – I cannot vouch for who invented roundabouts, but I do remember that my school bus used to circle three along the A128 in Essex in the early 1950s. A regular pastime on winter mornings was counting the cars that had crashed by failing to navigate them on the previous foggy night.

Peter Spurging
Seattle

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Sudan

Glittering towers in a war zone

Dec 7th 2006 | EL-FASHER, JUBA AND KHARTOUM
From The Economist print edition

Eyevine

Oil could break or make Africa's largest country. But at the moment there is more breaking than making

Get article background

AT THE confluence of the White Nile and the Blue Nile in Khartoum lies Africa's largest commercial construction site. Across 1,500 acres, at a place called Alsunut, Sudanese and Chinese workmen are working in shifts around the clock to build a new Dubai: a vast complex of gleaming offices, duplexes and golf courses that will turn Khartoum, it is hoped, into the commercial and financial hub of Islamist east Africa.

The first tower of this $4 billion development, due to be finished by next October, will be the headquarters of the Greater Nile Petroleum Operating Company. Close behind, in a building shaped like a sail, will rise the headquarters of Petrodar. Both these companies—Chinese, Malaysian, Indian and Sudanese joint ventures—are pumping out Sudan's oil, most of which is being bought by China.

A Sudanese company, DAL Group, is investing about $700m in the infrastructure for the project, but the buildings themselves are being put up by their new owners, a Who's Who of the oil-producing Arab world and oil-consuming Asia. All the Gulf states are buying plots. Khartoum is not only awash in its own oil money, but is also mopping up some of the surplus petrodollars of the Middle East. The Kuwaitis, the Malaysians and the Chinese are well represented. A Pakistani group is adding a snazzy 350-room hotel.

And that is just on one side of the White Nile. Opposite Alsunut, on the Omdurman side, Saudi and Kuwaiti investors have bought a large plot of land on which they intend to build a huge financial centre. And all this is taking shape in a country which is still subject to comprehensive economic sanctions, imposed by America, for giving shelter and support to terrorists—including, at one time, Osama bin Laden.

Sudan is now one of the fastest-growing economies in Africa. The IMF expects its GDP to grow by 13% this year, and the investors in Alsunut seem confident the boom will go on. Having found itself isolated in the 1990s for its Islamist extremism and terrorism, Sudan has found a way back into international esteem without the West, by re-inventing itself as the new entrepôt state of east Africa.

But this, of course, is not the whole story. Behind the fast-rising glittering towers lies a region that has been ignored: Sudan's south, where 80% of the oil lies. After 1956, when the country gained independence, the south, which is Christian and animist, was in an almost permanent state of rebellion

against the Muslim Arab north, demanding a bigger share of the national wealth and a greater degree of self-rule. This region, which holds the key to the development of Sudan, also holds the key to its peace in future; not only in the south, but also in the war-ravaged western region of Darfur.

Taking grenades to school

Under intense American pressure, a comprehensive peace agreement (CPA) was signed between the north and the south in 2005. Under the CPA the political arm of the main rebel group, the Sudan People's Liberation Movement (SPLM), is now part of the national government in Khartoum; Salva Kiir, the SPLM leader, is both vice-president of Sudan and president of the official new government of South Sudan. This is an interim arrangement; in 2011, southerners are meant to decide whether they want to stay as part of Sudan, or found their own independent state.

Southern Sudan remains a tense, chaotic place in which memories of fighting have not faded. In Juba, the capital of the putative state of South Sudan, Mr Venisto (he will give no first name), wonders what to do about boys who bring hand grenades to his primary school. His “boys” range in age from six to 25; some bring guns, others turn up drunk. They have known little else in their lives but bush warfare. Like everyone in Juba, Mr Venisto has to survive on his wits rather than money, trying to instruct more than 2,980 pupils with just 51 teachers, all of them new to the job. With as many as 150 in each class, the tents that serve as classrooms are ripped and shredded as the pupils tumble out of them. Mr Venisto insists on a full morning of classes, as breaks quickly degenerate into all-out fighting.

The new government of South Sudan, composed of former commanders of the Sudan People's Liberation Army, is trying to enrol 750,000 new pupils this year, out of a population of 12m. If they succeed, still only about 30% of school-age children will be at school. But it is progress of sorts, and at least the south is in a state of relative peace. At the moment, the best guess is that a huge majority of southerners will vote for their own state when they get the chance.

Their own state would mean their own oil industry. Riek Machar, South Sudan's vice-president, eagerly outlines a plan for a refinery just east of Juba and pipelines through Congo to the Atlantic and Kenya to the Indian Ocean. The construction companies, he says, have already been chosen for the pipelines and the finance is nearly in place; the fact that the Kenya pipeline is supposed to reach the sea at Lamu, a World Heritage site, does not worry him. (“They're just tourists.”)

Mr Machar's plans, combined with the election schedule, mean that the northern government may have only five years to extract as much oil from the south as it can before it loses control. And this deadline puts the peace in jeopardy. The aggressive search for, and extraction of, oil by north-sponsored companies is not only messing up the environment but also inflaming tensions with the southern government. And it is provoking a dangerous backlash.

Cows, oil and poisoning

The dangers can be seen all too clearly in remote villages like Longuchuk, near the oil-rich Sudd marshes of Upper Nile state. Two years ago, Chinese oil workers arrived there. They were escorted by armed men in T-shirts, whom locals later identified as Sudanese soldiers. They stayed for six months, sank four wells and cleared access roads, all without talking to the villagers or asking their permission. A pool of slimy water beside one of the capped wells shows where the surplus oil was dumped. A hundred cows, the villagers say, died from drinking that water. When the oilmen came back last April, the local people—furious that they had got neither jobs from the project, nor compensation for their losses—refused to let them in.

Diane de Guzman, a specialist on oil in Sudan for the United Nations, argues that the rape of Longuchuk is part of a pattern across the oil zones of the south. Villagers are displaced by militias to allow exploration, the land is despoiled, cattle die within hours of drinking contaminated water. Under the terms of the CPA, the southern government is meant to be consulted about these oil missions; but it is not, and almost no compensation has been paid.

The southern government has just begun to fight back; it recently impounded two oil-company helicopters that were carrying out unauthorised seismic tests. Individual villages and militias have also begun to mount their own attacks on oil workers and installations. The past few weeks alone have brought reports of seven oil workers killed around the village of Paloich and an attack, by a group from another village, on a convoy of 21 oil tankers. More worrying for the northern government is the news that rebel groups from elsewhere are joining in. On November 27th, for the first time, one such band ventured out of terrorised Darfur to attack a refinery at Abu Jabra in North Kordofan state. This is not yet an insurgency against oil companies of the type that has been seen in Nigeria, but the first signs are there.

The northern grip

Oil is at the heart of other critical disagreements between the north and the south. The CPA requires the proper delineation of the north-south border; but the north has rejected the rulings of a border commission in the oil-rich Abyei region, fearing that too much land will go to the south. This has delayed the whole process of marking out the border. At present, the southern government is said to be getting half of the net oil revenues from the southern oilfields, as they are entitled to under the peace agreement. But it is the north that provides the statement of the net amount. Southern politicians say they are not allowed to examine the books to see whether they are getting their fair share.

Most disappointing of all, little progress has been made towards demobilising the scores of militias that roamed the south during the war. These militias, constantly shifting their alliances, were sometimes used as proxy fighters for the northern government. The Sudanese army has pulled back from most of its bases in the southernmost states, but only as far as the oilfields. There the north also keeps up to 60,000 of the more Islamist Popular Defence Forces, which it can deploy whenever it likes.

The danger of having so many armed militias still wandering about was dramatically illustrated last week in the town of Malakal. In the biggest breach of the 2005 ceasefire so far, the SPLM engaged in several days of fighting with both a militia group and the regular (northern) Sudanese army. Hundreds died. Previous weeks had seen about 20 attacks on the main road from Juba into Kenya, leaving more than 100 dead. Having caught 15 of the attackers, the SPLM identified them as members of a militia directed by the Sudanese army. Pa'gan Amum, the secretary-general of the SPLM, called this “an act of war” and an attempt to “terrorise and destabilise” the south.

In such an atmosphere of distrust, it is not surprising that the southern government is rapidly converting its old guerrilla force into a proper army. In the latest budget, over 40% of the precious oil money, South Sudan's only source of income, has been earmarked for military expenditure. If the north is spoiling for a fight over the oilfields and southern secession, then the south wants to make sure it is ready.

Next year 1m refugees are expected to return to the south, and a census is planned for November to pave the way for elections in the whole of Sudan in 2008. Failure could see the south reverting to chronic instability, or even to war again. Peace was achieved in the south only when America, the European Union and regional African countries bullied the north into making the necessary deals. Now that pressure has been relaxed.

The Darfur distraction

The reason is obvious. American and European attention has become focused on a much more unhappy province, Darfur in the west. Since rebel groups there started their own military campaign against the Islamist north, in 2003, the northern government has been trying to expel or kill the African pastoral tribes, even though most of them are Muslim. Appalling acts of barbarity have displaced over 2m people and killed about 300,000 more. The disaster in Darfur, and in particular the West's endless wrangling with Khartoum over whether or not to get a UN force into the region, is sapping the outside backing that is essential for securing the north-south peace accord.

The conflict in Darfur continues unabated. Indeed, despite the comings (and goings) of ceasefires and peace talks, the fighting today is as intense, and the human toll as dreadful, as ever. The north's campaign there, however, appears increasingly futile. In the past month the Sudanese army has suffered two considerable defeats in Darfur, one at Umm Sidir and the other at Karyare; there, the rebels killed about 100 government soldiers and took 200 prisoner.

Even the government's strongholds do not appear secure. This week the UN evacuated most of its staff from el-Fasher, the capital of North Darfur, after fighting broke out in the market with rebel fighters; there had been rumours of an imminent attack on the town by a coalition of rebel groups. The northern army seems demoralised and ineffective, which is one reason why it has reverted to using the fearsome *janjaweed* Arab militias as its proxies, in combination with high-level bombing, to terrorise and subdue the locals. But the army's defeats may not lead to meaningful peace deals; so many different rebel groups now infest Darfur that striking any sort of agreement with them all has become dauntingly difficult.

Chris Czerwinski, head of the World Food Programme (WFP) in el-Fasher, says that the recent fighting has created another 20,000 refugees to add to the hundreds of thousands already in the area. In the couple of months since the breakdown of a peace deal signed in May between one of the rebel groups and the government, many places have become too dangerous for aid workers.

Between June and September, 13 local staff members of NGOs were killed in attacks on vehicle convoys in North Darfur. As a result, NGOs are now withdrawing staff from permanent postings servicing the refugee camps in some of the more remote areas. In a recent attack the *janjaweed* pillaged four WFP stores, taking about 1,000 tonnes of food destined for refugees. The fighting in Darfur has also spilled over into the Central African Republic and Chad; there, Sudanese-backed militias are attempting to overthrow President Idriss Déby's regime, creating more refugees on the border between the two countries.

Under the CPA, elections throughout Sudan (including for the presidency and the national assembly) have to be held not later than the summer of 2009. These may provide a way out of the current impasse in the south and the west. Sudan's president, Omar al-Bashir, thinks that their problems have been overblown anyway, especially in the case of Darfur, which he presents as a distant and unimportant province. The Western media, he says, exaggerates it all. In Khartoum, at least, he has a sympathetic audience, for 70% of all the foreign money pouring into Sudan—according to the minister of investment—is flowing into Khartoum state, the heart of the regime, binding people there all the more closely to the ruling National Congress Party.

Yet Mr Bashir's oppressive government is not popular outside Khartoum. Indeed, it is hard to see how it could win a majority in national elections. The economy may be booming, but it is also displaying all the classic symptoms of an overheating petro-economy, with a rapidly appreciating currency, rising prices and creeping corruption, both in the northern and southern governments. Not many Sudanese have a

real stake in the current oil boom, and elections might just sufficiently reshape the political landscape to alleviate the pressures from the centre on the long-suffering peoples of Darfur and the south. Perhaps the most urgent task facing everyone involved in Sudan is to hold the CPA together to ensure that those elections take place.

Timid stakeholders

On paper, a properly united Sudan seems well worth aiming for: an oil-rich but underdeveloped south complementing an educated, commercial north with few natural resources. But the northern government still feels no obligation either to share its wealth with poorer peripheral provinces, or to behave well towards them. What is more, too many countries now have a large financial stake in Sudan. Their wish to be nice to the regime in Khartoum means they have no interest in forcing it to mend its ways, by, for instance, imposing further sanctions over Darfur. The Chinese would never agree; but there has been little help from the Arab League either, or from India and Malaysia. They are more focused on the German pile-drivers laying the foundations of the towers of Alsunut—and on the oil concessions.

Alsunut is not the only huge construction site in Khartoum. About 15km (9 miles) across the city the largest American embassy in Africa is going up, which will supposedly house the biggest CIA listening post outside America. It reflects the spooks' cosy relationship with the Sudanese intelligence services in the name of the “war on terror”. When it comes to that particular war, and the lure of oil, old enmities—and the old hopes of peace in Sudan—can rapidly be forgotten.

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Iraq

Managing defeat

Dec 7th 2006 | WASHINGTON, DC
From The Economist print edition

The Baker-Hamilton report provides bipartisan cover for a withdrawal from "grave and deteriorating" Iraq. Now the president must decide whether to take it

Eyevine

AT LONG last, Washington has emerged from its state of denial and is embroiled in the mother of all debates over what to do about Iraq. For the past three years, the Bush administration has insisted that the only reasonable policy is to "stay the course"—and has demonised the opposition as Defeaticrats. The Bush code of *omertà* has more or less prevented leaks. And the Democrats have been sidelined by a combination of powerlessness and internal divisions.

All this has changed. George Bush now admits that "stay the course" is no longer a viable option. The administration is springing leaks all over the place—the past week has seen the leaking of two sensitive memos, one by Stephen Hadley, Mr Bush's national security adviser, casting doubt on the Iraqi prime minister's competence, and one by Donald Rumsfeld, the outgoing defence secretary, admitting that the current strategy is not working. And the Democrats are preparing to take over both houses of Congress after an election that delivered an overwhelmingly negative verdict on Mr Bush's administration in general and his Iraq policy in particular.

The reason is simple: American policy in Iraq is collapsing. During his confirmation hearings before the Senate Armed Services Committee this week, Mr Rumsfeld's designated successor, Robert Gates, conceded that America is not winning the war in Iraq. He said that "all options" are now on the table—and worried that failure could lead to a regional conflagration.

The centrepiece of the week was the publication of the Iraq Study Group's report on Iraq. The members of the ISG spent December 6th in a grand procession through the corridors of power. They met the president at 7am. They met House leaders at 8.30 and Senate leaders straight after that. They then gave a riveting press conference at 11 o'clock. The two chairmen of the group—Lee Hamilton, a former Indiana congressman, and James Baker, a former secretary of state—will be fixtures on the airwaves for days.

Those people who predicted an exercise in bureaucratic blandness were confounded. From the very first bleak words of the report—"The situation in Iraq is grave and deteriorating"—the world was left in no doubt that this is a deadly serious exercise. The ISG ruled out several widely-discussed solutions: staying the course (dismissed in 14 lines as "not sustainable"), radically increasing troop numbers, dividing the country along ethnic lines or "precipitate withdrawal". Instead, it recommended a combination of three main policies (see article).

The first is to change the primary mission of American troops towards support and training. The second is a performance-related approach to managing Iraq—helping Iraqis to help themselves but threatening penalties should they fail. The third is a “new diplomatic offensive” aimed at engaging Iraq's neighbours in stabilising the region, and including getting more deeply engaged in the Arab-Israeli conflict. The ISG envisages removing most American combat troops from Iraq by the first quarter of 2008—barely a year from now—leaving a greatly-reduced force behind to train Iraqis, provide logistical support and fight al-Qaeda.

How likely is it that Mr Bush will listen to Messrs Baker and Hamilton? The report, after all, demolishes the approach that Mr Bush has taken to national security since September 11th 2001—sidelining grand ideas about democratisation and emphasising negotiation with powers that Mr Bush has demonised as untouchables. Militarily, it is withdrawal by any other name, and not far short of precipitate.

The White House has been sending mixed signals since the mid-term elections. During his ill-starred meeting on November 29th with the Iraqi prime minister, Mr Bush complained: “There's a lot of speculation that these reports in Washington mean there's going to be some kind of graceful exit out of Iraq...this business about graceful exit just simply has no realism to it at all.” The White House has repeatedly stressed that the ISG is only one of three reports being prepared on Iraq (the other two are being prepared by the White House and the Pentagon).

But Mr Bush may now be open to new ideas on Iraq. Mr Hadley has been all over the airwaves suggesting that the president is planning to announce “a new way forward” in coming weeks. Mr Bush himself responded to the report by saying that he will take it “very seriously”.

The president likes to present himself as a Churchillian figure who is impervious to the winds of opinion. But in fact he has a long record of resisting new ideas until the last moment—and then claiming those new ideas as his own. Remember how he was opposed to the Department of Homeland Security until he was for it? The bipartisan Baker-Hamilton report gives Mr Bush an excuse for making just such a pivot.

The ideological tenor of the administration is changing rapidly. Mr Gates is much keener on engaging the other powers in the region than Mr Rumsfeld. The hawkish John Bolton is leaving his job as ambassador to the United Nations. Mr Rumsfeld left a parting memo, written just before the mid-term elections, which suggests that even he had lost confidence in his own policies. He admitted that “what US forces are currently doing in Iraq is not working well enough or fast enough.” His laundry-list of options included lowering expectations and withdrawing troops to the periphery of the country.

The Democrats are also signalling a growing willingness to co-operate with the administration in dealing with what everybody now recognises is a foreign-policy disaster. They are losing interest in precipitate withdrawal, a position strongly favoured by rank-and-file party members. (Military commanders believe that this could produce internal and regional chaos.) And they are clearly excited by the idea of engaging Iran and Syria in a regional compromise. On December 7th Tony Blair—a man hugely respected on both sides of the aisle—added support to the Baker-Hamilton formula.

The biggest obstacles to any grand bargain on Iraq may well be practical rather than ideological. Is Condoleezza Rice up to the job of acting as a regional power-broker? (Her performance during the Israel-Hizbullah war was notably weak.) Has the State Department got sufficient firepower to lend her support? (She currently has no deputy and one of her top advisers is leaving.) Is training the Iraqi army anything more than a pipe-dream? (According to one estimate, only one in four of Iraq's army battalions is able to “perform a useful function”.) And, above all, why should Iran and Syria promote regional stability? For all the sober and sensible recommendations of the Iraq Study Group, getting out of Iraq is going to prove a lot harder than getting in.

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The report in brief

Details, details

Dec 7th 2006 | WASHINGTON, DC
From The Economist print edition

The obvious, the sinister and the sensible

THE Iraq Study Group (ISG) admits that "there is no magic formula to solve the problems of Iraq." But it has 79 recommendations it hopes will help. They divide into three strands, which the authors say must all be pursued at once.

The military

America, the ISG says, "should not make an open-ended commitment to keep large numbers of troops deployed in Iraq." Instead, the focus must shift from combat to training Iraq's forces.

Cunningly buried on page 72 is the suggestion that all American combat troops could be withdrawn by as soon as the first quarter of 2008, leaving only 10,000-20,000 training and assistance troops embedded within Iraqi army units. In addition, an unspecified number would remain in the shape of special operations and rapid-reaction teams. These would be there to conduct operations against al-Qaeda—not, apparently, to assist with security in Iraq otherwise.

America would also continue to exert influence, the report says, through its powerful air, ground and naval deployments in Kuwait, Bahrain and Qatar.

The diplomatic

By the end of this year America should launch a "new diplomatic offensive" to address "all the key issues in the Middle East." In particular, the ISG wants America to renew its commitment to a comprehensive Arab-Israeli peace, based on a two-state solution for Israel and Palestine. As part of a comprehensive peace agreement, Israel should return the Golan Heights to Syria.

A complement to the diplomatic offensive would be a ministerial-level Iraq International Support Group, consisting of Iraq; its neighbours—including Iran and Syria; regional powers like Egypt and Saudi Arabia; the European Union; and the five permanent members of the UN Security Council. America should also establish a dialogue with insurgents and militias in Iraq, and with the Shia leaders Grand Ayatollah Ali al-Sistani and Muqtada al-Sadr.

The Iraqis

The ISG specifies a long list of hard-to-meet "milestones" such as the holding of local elections, the completion of reconciliation efforts and effective central government control of the provinces. The report is much more stick than carrot. If Iraq does not make reasonable progress towards these goals, it says, America should reduce its political, military or economic support for the Baghdad government.

Some recommendations under this head are banal: one is that George Bush keep in touch with Iraq's prime minister. Others are striking: members of the Baath party, who all lost their jobs after the war, could now be allowed back into government. The 2003 de-Baathification was America's most terrible blunder in Iraq. And it would probably do no harm for Mr Bush to restate, as the report suggests, that "the United States does not seek to control Iraq's oil."

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Bolton resigns

His UNdoing

Dec 7th 2006
From The Economist print edition

America's UN ambassador quits

SO, after Donald Rumsfeld, another neocon hero bites the dust. “I am not happy,” said George Bush; but he reluctantly accepted the resignation of the most controversial ambassador ever sent by America to the United Nations. John Bolton had done a “fabulous job”, he insisted, serving his country with extraordinary dedication and skill and assembling coalitions that addressed some of the most consequential issues of the day. The stubborn obstructionism of those who had chosen to block his reappointment, Mr Bush maintained, “ill serves our country”.

Not everyone sees America's fiery ambassador—with his remarkable white walrus moustache under a reddish-brown thatch—quite that way. Indeed, probably his most noted trait during his brief 16-month stint in New York has been his inability, or unwillingness, to make friends and build alliances in an organisation where networking, compromise and consensus are the order of the day. “Instinctively, he's a bully,” one Western ambassador complained. “He has succeeded in putting almost everyone's back up, even among America's closest allies.”

The most vocal advocate of UN reform has come to be seen as one of the main obstacles to change. “Bolton's main achievement has been to unify the G77 [a group of 131 developing nations plus China] and to radicalise them,” says a senior UN official who was previously well disposed towards him. “Without him, the reform process would have been much easier. That doesn't mean that all he has done has been negative. We needed someone to put his foot down. The big problem with Bolton is not what he has tried to achieve, but his style.” That is a view with which many seem to agree.

From the outset, Mr Bush appears to have underestimated the degree of hostility to his choice of such an abrasive unilateralist to represent American interests at the UN. Mr Bolton had spent a lifetime heaping scorn on all things international. “There is no United Nations,” he said once. “There's an international community that occasionally can be led by the only real power left in the world—and that's the United States—when it suits our interests and when we can get others to go along.”

The neoconservatives applauded. But some moderate Republicans were as appalled as the Democrats. “We need alliances, we need friends,” protested Chuck Hagel, a Republican member of the Senate Foreign Relations Committee. “To go up there and kick the UN around doesn't get the job done.” After five months of tempestuous hearings by the committee, Mr Bush decided to bypass Congress, pushing through Mr Bolton's posting as a one-off “recess appointment”. This was due to expire at the end of the present Congress. Last month, Mr Bush re-submitted Mr Bolton's name in the hope of winning approval from the outgoing Senate before the new Democrat-controlled one comes in next month. Those hopes died when a key Republican moderate, Senator Lincoln Chafee, said he would not back Mr Bolton.

Even then, Mr Bush had hoped to find a way around this by appointing Mr Bolton to a nominally junior post not requiring Senate approval, while keeping him at the head of the UN mission. Mr Bolton himself was said to have been keen. But Mr Bush, and perhaps his pugnacious ambassador too, seem to have been persuaded that the anger this would cause among Democrats, with whom Mr Bush is now obliged to work, was just not worth it. Mr Bolton's departure will certainly mark a change of style in America's UN operations. But the substance may be little changed: Mr Bolton had been pushing for sensible resolutions on matters including Iran and Sudan. That work will go on.

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America and China

Paulson's party

Dec 7th 2006
From The Economist print edition

George Bush's entire economic team heads to China. Why?

IF YOU want to discuss American economic policy next week, go to Beijing. On December 14th and 15th, Washington's top brass—Hank Paulson, the treasury secretary, along with five other cabinet-level officials and Ben Bernanke, the head of the Federal Reserve—will sit down with their Chinese counterparts for the first meeting of a new semi-annual "Strategic Economic Dialogue". Such a gathering is unprecedented. What (aside from frequent-flyer miles) will be gained?

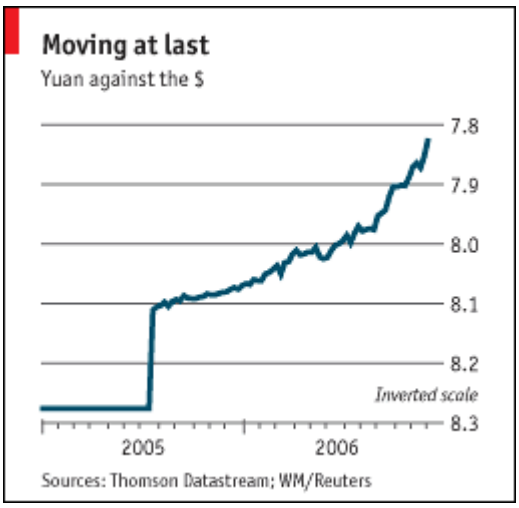
Officially, the goal is to lift the Sino-American economic debate from narrow squabbling over China's cheap currency to bigger and broader subjects. Mr Paulson, a man who prides himself on close contacts with the Chinese leadership and who, as an investment banker, was famed for his assiduousness with clients, realised that his predecessors were perceived as hectoring foreigners in Beijing. Instead of taking that route, Washington would woo the Chinese with a dialogue among equals.

The agenda is certainly lofty, covering subjects from China's energy and environmental strategies to the country's role in the global economy. Even if it is just talk, it is a meeting worth having. It surely cannot be a bad idea for the world's two biggest emitters of greenhouse gases to discuss energy security and the environment. But the American visitors have more immediate hopes—to influence Chinese policy, and to fend off protectionist pressure from the new Democratic Congress.

In trade disputes, at least, the Bush team seems to be shifting gears. Until Mr Paulson's arrival, the Treasury sounded tough on China's currency, while Mr Bush's trade team held back from taking legal action on trade disputes. (America has filed only one case against China at the WTO, on car parts.) Now Mr Paulson sets a conciliatory tone, while the trade negotiators are getting tougher.

Washington may soon file a WTO case accusing China of inadequate enforcement of intellectual-property rights. A second WTO case, against illegal Chinese export subsidies, may also be filed next year. America may also consider levying countervailing duties against Chinese goods that the Commerce Department considers artificially subsidised.

Overall, the currency and trade imbalances remain the biggest political irritations. Chinese officials talk a lot about shifting towards a greater focus on consumption, but American policymakers doubt whether much has really been done. China's overall current-account surplus, they point out, has soared to around 8% of GDP. And protectionists frequently complain that the bilateral trade deficit exceeded $200 billion last year and is still rising. Nicholas Lardy, a China expert at the Peterson Institute for International Economics, recently wrote that the country's transition to more consumption-driven growth was "off to a slow start". That view is echoed throughout official Washington, though there is a recognition that the pace of yuan appreciation—at least against the dollar—is gathering steam (see chart). Since September, the currency has risen by 7% on an annual basis.



Politically, the big question is whether Beijing will keep up this pace of appreciation against the dollar and whether that will placate the new crowd on Capitol Hill. Conventional wisdom holds that the arrival of the Democrats has raised the risks for China, an idea Mr Paulson and his team are only too happy to propagate. There is some truth to it. Nancy Pelosi, the

incoming speaker of the House of Representatives, is a staunch critic of China's human-rights record as well as a trade sceptic. She has scuffled with Chinese police on Tiananmen Square and called American trade relations with China “a disaster”. Set against that, the most dangerous piece of anti-China legislation—a bill to slap 27.5% tariffs on Chinese goods if the currency is not revalued by the same amount—has been formally withdrawn. Its proponents have promised to work with other senators on a more modest law that would not break WTO rules, a process that is likely to take at least six months.

There will be much huffing about China in congressional hearings, but the Democrats seem prepared to give Mr Paulson's new strategy a shot. That could change if the economy goes into recession and unemployment rises sharply. For now, dragging much of the cabinet to Beijing seems a small price to pay for diffusing protectionist pressure at home.

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Church and state

A broader church

Dec 7th 2006 | LAKE FOREST
From The Economist print edition

Why an evangelical preacher invited a Democrat to take an AIDS test

ON DECEMBER 1st Rick Warren was tested for HIV. He was not in doubt as to the result: as he told a crowd at the huge Saddleback Church in Lake Forest, California, where he is pastor, he has remained faithful to his wife for three decades. But he wanted to set an example at the start of the 2006 Global Summit on AIDS and the Church, at Saddleback. The hugely influential conservative author of “The Purpose-Driven Life”, a multimillion-selling tome, has embarked on a crusade against AIDS. It is bringing him, and other evangelicals, into unfamiliar political terrain.

Reuters

Obama and new friend Warren

Evangelicals have struggled with the subject of AIDS since the disease emerged. The judgment of Jerry Falwell, a fire-and-brimstone preacher, that “AIDS is the wrath of a just God against homosexuals” strikes many of them as too harsh. But the pattern of transmission of HIV seems to support their views about the dangers of sexual immorality. How to say that and not sound callous?

Most preachers have mumbled something about loving sinners and hating sin, then changed the subject. By contrast, Mr Warren and his wife, Kay, revel in making their co-religionists uncomfortable. Mrs Warren has called on evangelicals to repent for their apathetic attitude to AIDS victims and, unlike Mr Falwell, stresses compassion. As she said last week, “There are consequences that can happen when you're sinful, but it's not a sin to be sick.”

None of which turned out to be nearly as controversial as the presence at the Global Summit of Barack Obama. Mr Warren's invitation to the Democratic senator (who dutifully submitted to a mouth swab for HIV) brought a rebuke from conservative churchmen and commentators who object to his attitude to abortion. Mr Obama made a fine speech, in which he accepted that in many places the relationship between sexuality and spirituality “has broken down and needs to be repaired”, but concluded that “we are dealing with flesh and blood men and women and not abstractions”. Mr Warren shrugged off the conservative criticism.

Other ministers, too, want to do more than rail against sin and are meeting similar opposition. Joel Hunter, president-elect of the conservative Christian Coalition, recently tried to broaden that outfit's appeal by stressing issues such as the environment and the minimum wage, normally associated with the Democratic Party. Two weeks ago he stepped down, citing differences of opinion with his board.

Mr Hunter's parting shot—“I feel like there are literally millions of evangelical Christians that don't have a home right now”—helps to explain Mr Warren's interesting guest list. For many years, evangelicals have built a home with the Republican Party. The alliance has suited both sides. Conservative evangelicals have supplied votes, and received two conservative appointments to the Supreme Court in return. But the alliance has been based on a narrow spectrum of issues, such as opposition to abortion and gay marriage. Evangelicals care about many other things too. And they do not like coming across as doctrinaire and mean-spirited.

If evangelicals like Mr Warren are increasingly keen to refashion their relationship with the Republican Party, Republicans are also minded to keep their distance from conservative evangelicals. Even before the party was hammered at the polls on November 7th, some had warned that the party was too close to the religious right. If that defeat does not lead to a divorce from evangelicalism, it may at least spur frank marital discussion.

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Race and schools

Unequal: the sequel

Dec 7th 2006 | CHICAGO
From The Economist print edition

The Supreme Court looks again at race in schools

AMERICA'S public schools are unfair. Their quality varies widely and many are lousy, so some unlucky kids get a shoddy education. Rich children live in areas with more property taxes, more education spending and better schools. They also tend to be white. So is it fair to keep some white children out of good schools, and give black children their places?

That incendiary question is among those at the heart of two cases the Supreme Court heard on December 4th. In two districts that deliberately balance each school's racial mix (Jefferson County, Kentucky and Seattle, Washington) some white children complain that, because of their skin colour, they cannot get a fair shot at admission into the public schools they want. Both sides claim to have on their side the constitution's 14th amendment, which was ratified after slavery ended, and grants everyone equal protection under the law.

The Supreme Court has long struggled to apply that principle to public education. In a unanimous 1954 decision, *Brown v Board of Education of Topeka,* it ruled that racially separate educational facilities are inherently unequal. It has since issued several other rulings to clarify the *Brown* precedent and to make school districts dismantle the machinery of segregation—often by busing black and white children to distant schools. Five decades after the decision hundreds of school districts remain under federal court supervision, until they can convince judges that they are fully desegregated.

Thousands of other districts, however, can run schools broadly as they wish, either because they were never deemed to be segregated or because they have reformed to the courts' satisfaction. It is these districts that are now creating the trickiest legal battles. Largely free to do what they want, many take active steps to create and maintain racially-mixed schools. That is not easy. Although deliberate segregation is no longer an issue, demographic trends and white flight to rich suburbs keep pushing in the direction of a de facto segregation of schools. Officials who want lots of integration can only achieve it, in many cases, with a strong hand and a blatantly colour-conscious mind.

From 1975 to 2000, for example, the Jefferson County school district remained under a court order to desegregate. But after it finished the job, and was freed from court supervision, the district still wanted to ensure racial integration in schools. It does so by insisting that 15-50% of each school's students be black. Although Seattle never segregated its schools, it also takes active steps to balance schools racially. Students can apply to attend any high school in the district, for example, but since the best schools are oversubscribed it rations openings by race.

Other districts across the country have similar schemes. Some (white) parents complain that this discriminates against their children, and is therefore unfair. But they are a minority. The idea of diversity is popular among many black, white and other Americans; and integration schemes often have local voters' support. The Supreme Court's nine voters, however, seem divided. They will announce their ruling in the spring.

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Electronic voting

Another election mess in Florida

Dec 7th 2006 | WASHINGTON, DC
From The Economist print edition

Big doubts about a narrow victory

SINCE it is a place where alligator wrestling is a recognised pastime and tourists wear hats with Mickey Mouse ears, you might think that Florida would be immune to embarrassment. But after its punch-card ballots threw the 2000 presidential election into chaos, the state made a decisive move. It outlawed punch-cards and spent millions of dollars on touch-screen voting machines instead.

“There'll never be a hanging, dangling, or pregnant chad again,” vowed Katherine Harris who was Florida's secretary of state at the time of the election. In 2002, Ms Harris was elected to the national House of Representatives.

AP

The perils of technology

But now voters are realising that a mangled paper record is better than none at all. “At least we had the ability to determine a voter's intentions,” said Dan Smith of the University of Florida. This year's election to Florida's 13th congressional district provides a handy lesson in the pitfalls of electronic voting. Weeks after election day, it is still being contested. In an odd coincidence, it is the seat Ms Harris decided to vacate to pursue a disastrous Senate run.

Initial results showed a narrow lead for the Republican, Vern Buchanan. A recount gave him a 369-vote victory. Good enough to settle the matter in some circumstances, but not these. Sarasota County, one of four (plus a fragment of a fifth) that make up the district, had an abnormally high rate of “undervotes” in the race. More than 18,000 of its ballots recorded no vote for Mr Buchanan or the Democrat, Christine Jennings. That meant that 13% of Sarasota voters failed to choose a House candidate, compared with roughly 2% in neighbouring counties. Sarasotans cast more votes for the hospital board than they did for their representative in Washington.

Because the machines provide no paper record, no one can say for sure whether the missing votes, if counted more carefully, could have changed the outcome. But pre-election polls showed Ms Jennings in the lead. If the missing votes split at the same rate as the rest of the county, she would easily have won. Ms Jennings has filed a lawsuit asking for a re-run.

Officials at first downplayed the story. “I'm not sure there's even a problem,” said a spokeswoman for the secretary of state, theorising that voters sat out the race to protest against negative campaigning. But everyone in the district saw the same nasty ads and the pronounced undervote was limited to Sarasota County.

Working out what went wrong will be complicated. In court filings, Ms Jennings attributed the undervote to “pervasive malfunctioning of electronic voting machines”. The state made election workers re-cast thousand of ballots to test the machines. Discrepancies abounded, but this only proved that there were problems during the test. “Florida election officials”, sighed one local paper, “now have two mysteries to solve.” Many are blaming a poor ballot design in Sarasota that squeezed the House race onto the same screen as the governor's race.

At least one question got a clear answer on election day. Voters were asked whether Sarasota County should provide paper ballots, to be counted by optical scanners, in future elections. Some 55% said yes, and no one is disputing that.

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Lexington

After Bush, the deluge

Dec 7th 2006
From The Economist print edition

The field of presidential candidates grows by the day

THE first primaries are still 13 months away, but it's already raining candidates. In just the past fortnight three people have more or less announced that they are running for the presidency—Sam Brownback, a Republican senator from Kansas, Evan Bayh, a Democratic senator from Indiana, and Tom Vilsack, the outgoing Democratic governor from Iowa, who declared his candidacy in no fewer than four states.

Hillary Clinton has held secret pow-wows with prominent New York politicians. Barack Obama and Joe Biden have dropped loud hints that they are running. And John McCain—who is not and never has been a governor—turned up to a meeting of the Republican Governors Association and hosted a rival shrimp dinner. The candidates and soon-to-be candidates are busy signing up advisers and operatives. Hotels in Iowa and New Hampshire are already doing brisk business as people spy out the land.

The next presidential election—"08" in the shorthand—has the political class slavering. James Carville, the legendary Democratic campaign manager, recently addressed a conference on the mid-term elections. He began by ridiculing pundits who declare that every American election is the most exciting and important ever. He then paused for a moment before adding that "08" really will be the most exciting and important in memory.

He is probably right. This is the first time since 1928 that both parties have truly open primary races: normally an incumbent president is seeking re-election or a vice-president is up for promotion. And whereas the Democrats usually engage in mud-wrestling to see who will get their party's nomination, the Republicans are generally disciplined. They like to rally around a top dog as early as possible (for all the McCain mania in 2000, the insurgency was quickly put down, though George Bush senior was damaged by friendly fire in 1992). They even lined up behind the obviously doomed Bob Dole in 1996.

This time there is no chance of an orderly Republican succession. The vice-president, Dick Cheney, would be too radioactive to win the nomination even if he had not already ruled himself out. Mr McCain has tried everything—including climbing into bed with Jerry Falwell—to turn himself into the front-runner. But many Republicans harbour strong doubts about Mr McCain because of his age (he is 70), temperament and habit of getting into fights with his own side. Rudy Giuliani beats Mr McCain in many polls, though he has put much less effort into running.

Both parties will have a remarkable collection of candidates. The Democrats start with America's first potential female president and its first potential black president. Hillary Clinton is a global political star by virtue, at the very least, of her complicated marriage; Barack Obama drips with raw talent. The Democrats could also see the return of Al Gore—who won the popular vote in 2000 and who has spent the past six years accumulating credits over everything from Iraq (which he spoke out against before it was fashionable) to global warming (ditto).

For their part, the Republicans start with two huge personalities—Mr McCain, a Vietnam-war hero turned political crusader, and Mr Giuliani, formerly New York's mayor, who won global admiration on September 11th 2001. Both men arouse loathing as well as admiration. And both have fiery tempers. Newt Gingrich, too, is in the wings. The former House speaker can simultaneously galvanise the faithful and energise the debate.

Go down to the next level and you find other impressive candidates. Mitt Romney of Massachusetts has a stellar record as a “problem-solver” in both business and government. John Edwards outshone John Kerry in 2004. Mr Bayh has demonstrated a sustained ability to win elections in Republican territory (LBJ was the last Democratic presidential candidate to carry Indiana). All these candidates have everything to play for. The front-runners could easily implode as a result of an unguarded moment relayed on YouTube. Mrs Clinton has plenty of baggage; Mr Obama could join the long list of potential superstars, such as Howard Dean and Wesley Clark, who fizzled out.

The great debate

The race will be about policy substance above and beyond the backdrop formed by the drama of Iraq. Both parties are confronted with deep questions about their identities. The Republicans have to deal with the consequences of George Bush's big-government big-foreign-policy conservatism. Should they return to the anti-government policies of Mr Gingrich and his fellow radicals? Or to the “realist” foreign policy of Mr Bush senior? The party will probably have candidates willing to offer vigorous answers to all these questions, from Newt himself to long-standing advocates of realpolitik such as Chuck Hagel, a senator from Nebraska. It will also have candidates who are willing to offer unexpected variations on traditional themes. Mr Giuliani is a hawk on terrorism but a liberal on social issues; Mr McCain has developed an idiosyncratic variety of reform Republicanism.

The Democrats confront equally urgent questions. Should they return to Bill Clinton's centrist policies? Or do they need to listen to the left? The former first lady will make a formidable champion of Clintonism. But the centre of gravity in her party has shifted dramatically leftwards—the relentless growth in inequality has put a question mark against Mr Clinton's support for globalisation, and the debacle in Iraq has strengthened the party's pacifist wing.

A serious debate cannot come too early, after years of immature liberal-baiting from the right and Bush-bashing from the left. America needs to confront the decline in its global image, as well as the rise of inequality. The presence of so many strong candidates in the 2008 race means that, at the very least, the debate on both these issues, and many more, is now about to be joined.

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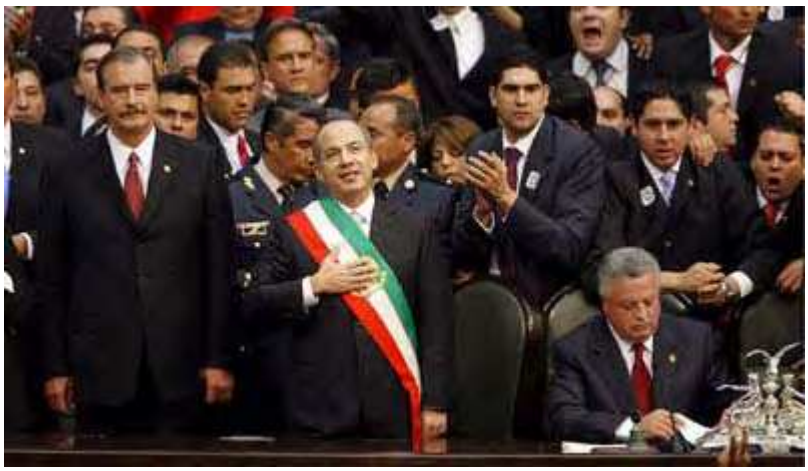
Mexico

Amid the tumult, a voice of authority

Dec 7th 2006 | MEXICO CITY
From The Economist print edition

EPA



A solid if unspectacular start for the president of a divided country

FOR three days before the inauguration of Felipe Calderón as Mexico's new president on December 1st, legislators in the country's Congress threw punches, chairs and soft-drinks cans at each other. This offered an unflattering image of the country's democracy, yet in some ways a misleading one. The brawl may come to be seen as the last gasp of a noisy campaign by Andrés Manuel López Obrador, the left-wing candidate, to overturn his narrow defeat in last July's presidential election. For his part, Mr Calderón has made a solid if unspectacular start as president.

The battle in the Congress was triggered by the decision of Mr López Obrador's Party of the Democratic Revolution (PRD) to try to impede the inauguration. In September, they had occupied the podium to prevent the outgoing president, Vicente Fox, from delivering his state of the union address. So this time legislators from the conservative National Action Party (PAN) seized it first. To a cacophony of whistling from the PRD, Mr Calderón reached the podium after slipping in through a back door and took his oath. He swiftly retreated to give his inaugural address to an invited audience on the other side of Mexico City.

It was undignified but Mr Calderón had made his point. Less flamboyant than Mr Fox, he is a quietly determined politician and a subtle tactician. In his speech, he set as his priorities for his first three months in office tackling crime and poverty, and job creation. He promised a purge of corrupt police and a more effective campaign against organised crime and drug trafficking. He said he would expand existing welfare programmes and launch a universal health-care scheme for children.

His ideas for job creation centre on infrastructure projects and expanding the tourist industry. However, state and local governments are mainly responsible for roadbuilding and drinking-water and sanitation schemes.

Mr Calderón inherits a stable and growing economy, but a political system riven by the post-electoral conflict. The PAN holds some 40% of the seats in Congress. The new president has failed in his aim of forming a coalition government. His cabinet is a mixture of capable technocrats and political stalwarts from the PAN, some of whom served Mr Fox.

Agustín Carstens, the finance minister, was a senior official at the IMF. Several of the technocrats, including Luis Téllez at communications and transport, served in governments of the formerly ruling Institutional Revolutionary Party (PRI). But they have only limited influence with the PRI's current

political leaders, upon whom Mr Calderón must depend to obtain a majority in Congress.

In his inaugural speech, the new president was conciliatory to his opponents. “To those who voted for others, I say that I will not ignore...the causes of their votes and I ask them to allow me to win their trust with deeds,” he said. He will seek talks in Congress on the reforms which eluded Mr Fox, including those of tax, the state energy monopoly and the labour market. He also offered to support an electoral reform aimed at dealing with some of the PRD's complaints. The new president has been silent on the issue of competition policy and the power of private oligopolists such as Telmex, the telecoms company, and Televisa, a television giant.

To make early progress in dissipating political and social tensions, Mr Calderón will have to rely on the fairly limited powers of the executive. He took two immediate steps. He slashed his own salary and that of his cabinet by 10% and announced further austerity measures in the public sector—measures promised by Mr López Obrador. These cuts are designed to save some $2.3 billion a year, which will pay for extra spending on health care and fighting crime, according to the draft budget unveiled this week.

The second step was the arrest of Flavio Sosa, the leader of protesters in the southern city of Oaxaca who have vandalised and set fire to many public buildings in a campaign to oust an unpopular state governor. As his interior minister, Mr Calderón named Francisco Ramírez Acuña, who when governor of the western state of Jalisco angered human-rights groups with his energetic repression of protests. His appointment, and the arrest of Mr Sosa, sent the message—perhaps aimed at Mr López Obrador—that Mr Calderón will take a hard line against lawless protests.

The new president “will do things slowly,” said Federico Estévez, a political scientist at ITAM, a Mexico City university. “He's a patient guy and not very dramatic.” The question is whether Mexico will give him the time he needs.

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Venezuela

Chávez victorious

Dec 7th 2006 | CARACAS
From The Economist print edition

A sweeping triumph for the Bolivarian revolution

Get article background

IT WAS an unequivocal electoral endorsement of Hugo Chávez and his Bolivarian revolution. In a presidential election on December 3rd, Mr Chávez won 63% of the vote to 37% for his opponent, Manuel Rosales. That was more than the 56% Mr Chávez won when he was first elected president in 1998, and gives him another six years in power. He will use them, he said, to "deepen and extend the revolution," whose aim is "21st century socialism."

His plans include the unification of his supporters in a single revolutionary party and a reform of the 1999 constitution. Although of his own making, this was adequate only for what he now calls the "transition" period. One of the changes he wants is to remove all term limits for presidential re-election.

AFP

The Hugomobile runs and runs on Bolivarian gas

Mr Chávez's popularity owes much to the massive increase in Venezuela's oil revenues over the past three years. He has said that he does not plan "drastic changes" to his government's social and economic policies. But at his post-election press conference, Mr Chávez, a former army officer and coup leader, reiterated his belief that democracy was impossible under capitalism. He also praised pre-Columbian systems of barter and collective property-ownership.

Private enterprise may face more restrictions. Over the past few years, the government has imposed controls on prices, access to foreign exchange and the allocation of bank credit. Government-subsidised co-operatives and "social production companies", together with state-owned enterprises, are likely to account for a growing slice of the economy.

Mr Rosales, a social democrat, barely hung on to the 4m anti-Chávez votes cast in a mid-term recall referendum on the president held in 2004. His proposals, including an innovative debit card for the direct distribution of oil income to the poor, seem to have had little impact among wavering *chavistas*. He trailed the president in all 24 states, including his home base of Zulia. But his energetic campaign, swift admission of defeat, and his determination to keep his broad coalition in being all hold out hope for the opposition.

Mr Rosales unveiled his own proposals for constitutional reform, including a reduction in the presidential term to four years, and tighter guarantees of property rights and educational choice. Education could be an early battleground, as it has been on and off since the country first became politically polarised between supporters and opponents of the president in 2001. The government believes that education should be politicised: it wants to inculcate "Bolivarian" values (for Simón Bolívar, the Venezuelan-born Latin American independence hero who is Mr Chávez's ostensible inspiration).

Mr Rosales quashed moves by radical anti-Chávez groups to take to the streets alleging a non-existent fraud. This will enhance his reputation as a straight-talker and decisive leader, both at home and abroad. His stance increases the legitimacy of the opposition, damaged by a failed coup attempt against Mr Chávez in 2002.

The president's power looks limitless. Because the opposition chose to boycott a legislative election last

year, it has no representatives in the National Assembly. The government controls the judiciary and all the other institutions of state.

Nevertheless, the president now faces a choice. The evidence is that most Venezuelans like Mr Chávez and his social programmes, but do not want Cuban-style communism. If the president chooses to use his new mandate to steer his revolution in a more authoritarian and collectivist direction, he is likely to face growing dissent, even within the ranks of his own supporters. If he chooses to try to start a dialogue with a more constructive opposition, he could remove the stigma attached to the undemocratic aspects of his rule. But Mr Chávez is not a man given to compromise. The most the opposition might achieve is to retard his progress.

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Canada

The geek shall inherit

Dec 7th 2006 | MONTREAL
From The Economist print edition

The Liberals pick a bookish green

FOR more than a century, every elected leader of the Liberal Party has eventually gone on to lead Canada. So it was not too much of a stretch for Stéphane Dion, the surprise winner of a fiercely contested Liberal leadership convention, to be hailed as “the next prime minister.” But as Mr Dion, a grey-haired and bespectacled former academic of stern intellect and zero charisma, thanked the 5,000 delegates in French and stilted English, many in the crowd were already wondering if the accolade was plausible.

The long list of shortcomings cited by his detractors starts with Mr Dion's supposed unpopularity in his native Quebec. He was drafted into the federal cabinet in 1996 after the wife of the prime minister at the time, Jean Chrétien, saw him on television defending federalism and commended him to her husband. As minister for inter-governmental affairs, he drafted the Clarity Act, which sets stiff conditions for any province to secede from Canada and is hated by Quebec separatists.

Mr Dion was later environment minister, a subject about which he is passionate but on which the Liberal record in government was poor. Being a Quebecker is said to be another handicap, especially one who stumbles when speaking in English. Two long-serving recent Liberal prime ministers, Mr Chrétien (1993-2003) and Pierre Trudeau (in office for most of the period from 1968 to 1984), hailed from the province. Canadians in the booming west, where the Liberals hold only 13 of 92 seats, grew tired of Quebec's political ascendancy, especially when the party machine in the province was embroiled in a corruption scandal under Mr Chrétien. An investigative commission laid no blame against Mr Dion for the scandal, but he may still be tainted by association.

All that is to underestimate Mr Dion, as his rivals for the party leadership did. He arrived at the convention as a dark horse. The frontrunners were Michael Ignatieff, a writer and journalist, and Bob Rae, who was once the premier of Ontario when a member of the leftish New Democratic Party. Mr Ignatieff, in particular, had a slick machine, which doled out sandwiches and bottled water bearing the Iggy logo and had managers in headsets manoeuvring hordes of supporters into place for supposedly spontaneous demonstrations.

In contrast, Mr Dion's campaign looked homespun, consisting mainly of green T-shirts and placards. But to many delegates, Mr Ignatieff, a neophyte politician who lived abroad for 30 years, came across as just as much of a carpetbagger as Mr Rae. Mr Dion profited, too, from the antipathy between their respective supporters. But he also laid out the most detailed platform and emphasised his cabinet experience, which none of his rivals could match.

Mr Dion will not have much time in which to unite the party behind him. Since the Conservative government lacks a majority in Parliament, a general election could happen at any time. Stephen Harper, the prime minister, is thought to favour calling an election in the spring, after introducing a budget that will serve as a campaign platform.

A poll this week by the Strategic Counsel gave the Liberals 37% support, compared with 31% for the Conservatives. That may merely reflect a post-convention bounce. But 62% of respondents in Quebec said Mr Dion was a good choice for Liberal leader, with only 29% saying he was not. Opposition to the new leader in Quebec has been overstated, says Don Johnston, a minister under Trudeau and former head of the OECD. “His critics don't even bother checking the facts.”

Similarly, Mr Dion's environmentalism looks like an asset rather than a liability. In some opinion polls, the environment now tops health care as the top public concern. Mr Harper's new clean-air legislation,

which was debated in the House of Commons this week, has been widely criticised as too weak.

One criticism is harder for Mr Dion to rebut. He is indeed bookish and lacking in charisma. But so is Mr Harper, and that did not stop him from turfing the Liberals out of office in last January's election. Mr Dion, said one commentator, is Mr Harper with a French accent. In an era when politics has degenerated into tawdry glitz, Canada seems to have bucked the trend. The next election campaign promises to be a real thumb-sucker.

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The Latinobarómetro poll

The democracy dividend

Dec 7th 2006
From The Economist print edition

Democratic revival 1

Which of the following statements do you agree with most? %

	Democracy is preferable to any other type of government					In certain circumstances an authoritarian government can be preferable to a democratic one				
	1996	2001	2005	2006	*Change since 2005*	1996	2001	2005	2006	*Change since 2005*
Uruguay	80	79	77	77	*nil*	9	10	10	10	*nil*
Costa Rica	80	71	73	75	*2*	7	8	8	9	*1*
Argentina	71	58	66	74	*8*	15	21	17	16	*-1*
Dominican Rep.	na	na	60	71	*11*	na	na	15	21	*6*
Venezuela	62	57	78	70	*-8*	19	20	11	11	*nil*
Bolivia	64	54	49	62	*9*	17	17	19	19	*nil*
Chile	54	45	59	56	*-3*	19	19	11	13	*2*
Nicaragua	59	43	57	56	*-1*	14	22	10	14	*4*
Panama	75	34	52	55	*3*	10	23	12	19	*7*
Peru	63	62	40	55	*15*	13	12	19	20	*1*
Ecuador	52	40	43	54	*11*	18	23	18	21	*3*
Mexico	53	46	59	54	*-5*	23	35	13	15	*2*
Colombia	60	36	46	53	*7*	20	16	11	15	*4*
El Salvador	56	25	59	51	*-8*	12	10	4	15	*11*
Honduras	42	57	33	51	*18*	14	8	10	12	*2*
Brazil	50	30	37	46	*9*	24	18	15	18	*3*
Guatemala	50	33	32	41	*9*	21	21	17	35	*18*
Paraguay	59	35	32	41	*9*	26	43	44	30	*-14*

Source: Latinobarómetro

Latin Americans are less dissatisfied, but building effective democracies in the region remains a long haul

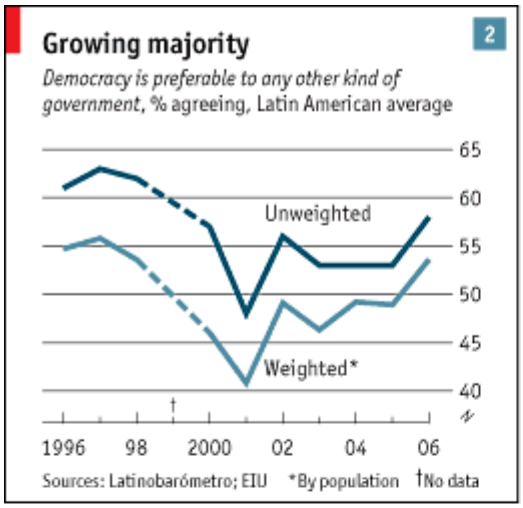
THEY are a bit keener on democracy, more optimistic about the economy and Latin Americans dislike George Bush and Hugo Chávez in equal measure. Those are some of the conclusions suggested by the latest Latinobarómetro poll taken in 18 countries across the region and published exclusively by *The Economist*. Because the poll has been taken regularly since 1995, it tracks changes in public attitudes in the region. The picture that emerges from this year's survey is one that is modestly encouraging for democrats.

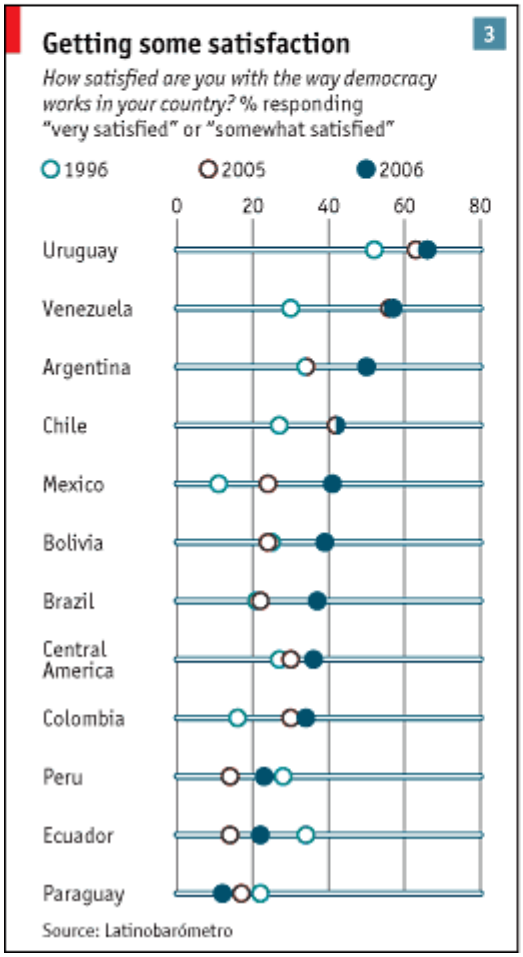
Three years of economic growth averaging around 4.5% and a plethora of elections in the region over the past 13 months have provided a democracy dividend. Overall, 58% of respondents this year agreed that democracy was the best system of government, up by five percentage points from last year. That is still five points down on the peak in 1997, but it follows three years in which the headline figure remained static.

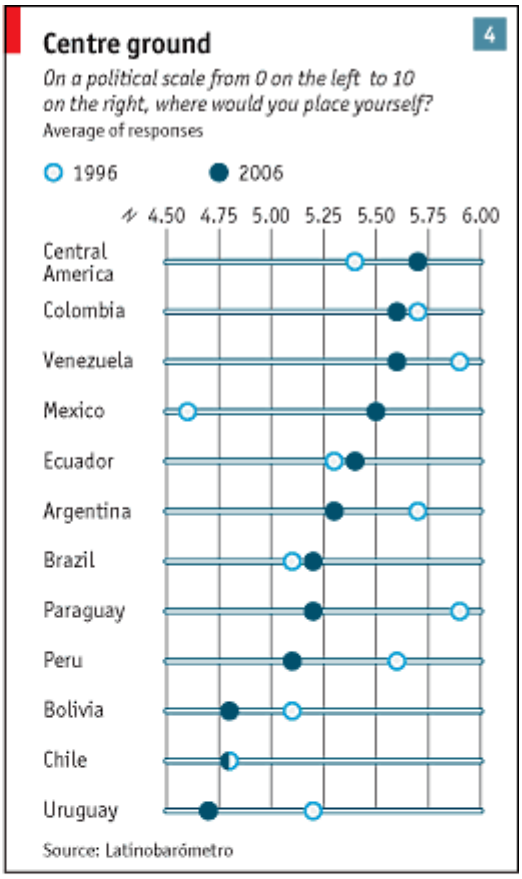
Ten countries saw increases in support for democracy of seven percentage points or more, but there were big falls in Venezuela and El Salvador (see table 1). Support for authoritarian government was high in Guatemala (where it rose) and in Paraguay (where it fell sharply). Support for democracy is below average in Brazil and Mexico, the region's two giants (see chart 2). Only 38% of respondents said they

were satisfied with their democracies, but that is a seven-point increase on last year (chart 3).

The poll casts an interesting light on the recent elections. Over the past ten years there has been a big rise in satisfaction with democracy in Venezuela, Chile, Mexico and Brazil. In each of those countries, incumbent presidents or parties won. But there have been big falls over the past decade in satisfaction with democracy in Peru, Ecuador and Paraguay.







The survey shows clearly that the two sets of issues uppermost in voters' minds were unemployment and poverty on the one hand, and crime and public security on the other. In Colombia, Venezuela and much of Central America, crime came top of the list. So it did too in Argentina—a backhanded compliment to the vigour of the country's recovery from its economic collapse of 2001-02.

Elsewhere, economic worries prevailed. That is part of the explanation for the shift to the left over the past few years. But that shift is modest and not ubiquitous (see chart 4). Mexicans, for example, have moved to the right. Venezuelans may like their left-wing president, Hugo Chávez, but only a quarter of respondents there saw themselves as being on the left.

There is no reason to believe that voters saw elections as a referendum on George Bush or on Hugo Chávez. After Fidel Castro, Mr Chávez is the best-known Latin American leader across the region as a whole (although 29% of respondents had not heard of him). But he is just as unpopular as George Bush: of those who had heard of Mr Chávez 28% approved while 39% disapproved of him.

Some 49% of respondents thought that elections in their country were fraudulent. That was down from 54% last year but still troubling. According to Marta Lagos, Latinobarómetro's director, that perception reflects broader worries about a lack of fairness in the political system. Only 26% of respondents thought that their country was governed for the benefit of all, rather than that of a few powerful groups. In Venezuela, which is enjoying a massive oil windfall, that figure rises to 50%, which helps to explain Mr Chávez's popularity.

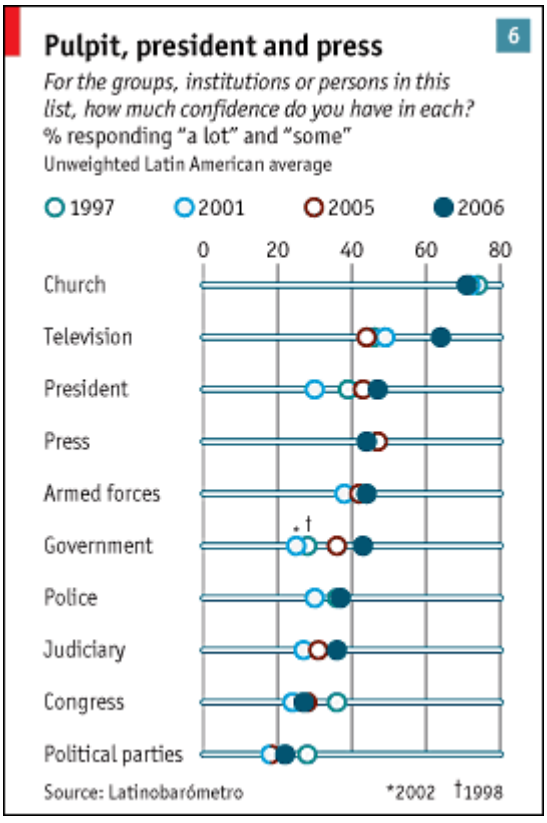
Even so, 73% of respondents said they voted in the most recent election. That figure correlates closely with the turnout in the presidential elections of the past 13 months. This averaged 72%, up slightly on the average since 1978, according to Daniel Zovatto of IDEA, an inter-governmental group that promotes democracy. Some 57% of respondents in the poll said that voting was the most effective way to change things, against 14% who favoured participating in protest movements.

Latin Americans seem to be more optimistic about the economy than at any time since the poll began. Overall, 18% of respondents said that their country's economic situation was good (up from 11% last year), 47% said it was “all right” and 35% said it was bad (down from 47% last year). Meanwhile, 30% said their own economic situation was good, up from a low of 17% in 2003. That helps to explain why the swing to the left was moderate.

Privatised public services are slowly becoming less unpopular (see chart 5). But Latin Americans have reservations about the role of private enterprise in the extraction of natural resources. Only 37% think the private sector should play a big role in mining, 36% in oil and 39% in natural gas.

Latin Americans are still witheringly critical of many of their institutions, though a little less so than in the past. They still place most trust in their church (see chart 6). This year, they gave more credence to television. But trust in political parties, legislatures and the judiciary remains worryingly low. Oddly, 58% claim to be satisfied with the education to which they have access, even though their schools lag badly in international tests.

If they were as charitable to their politicians as they are to their schools, the poll might look rather different. Overall, this year's results suggest that Latin America's democracies have recovered from the public disillusion prompted by economic stagnation in 1998-2002. But they still have a long way to go.



Latinobarómetro is a non-profit organisation based in Santiago, Chile, which has carried out regular surveys of opinions, attitudes and values in Latin America since 1995. The poll was taken by local opinion-research companies in 18 countries and involved 20,234 face-to-face interviews between October 3rd and November 5th 2006. The average margin of error was 3%. Central America in the charts refers to Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic. Further details from www.latinobarometro.org.

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Taiwan

Youthful enthusiasm

Dec 7th 2006 | KAOHSIUNG AND TAIPEI
From The Economist print edition

Despite corruption allegations, Taiwan's democracy is in rude health. Reform could make it even more robust

Reuters

Get article background

HARDLY a year goes by in Taiwan without elections portrayed as vital to the government's grip on power or relations with China. Polls take place on December 9th for the mayorships of the island's two most important cities, Taipei and Kaohsiung. With President Chen Shui-bian's standing dented by corruption scandals, his party's performance is being closely watched. Sadly, reforms that could make Taiwan's democracy work better are receiving far less attention.

It is only 20 years since Chiang Ching-kuo, a former president, instituted democratic reform. Compared with the chaotic transition from authoritarianism in some of its Asian neighbours, Taiwan is a model of democratisation. Campaigning for the Taipei and Kaohsiung elections has been typically colourful, noisy and acrimonious. But despite large street protests in the autumn calling on the president to step down, the country has been peaceful. Mr Chen's wife, Wu Shu-chen, is due to go on trial for alleged corruption on December 15th. Prosecutors have said Mr Chen would also face charges were it not for his presidential immunity. The army, which used to be highly politicised, is still believed to be a bastion of support for the opposition Nationalist Party, the Kuomintang (KMT). But there has been no hint of any military pressure on the president.

Corruption allegations against Ma Ying-jeou (pictured above right), the KMT's chairman and present mayor of Taipei, surfaced in November, and helped deflect criticism from Mr Chen. The president's Democratic Progressive Party (DPP) is widely expected to lose the race for the Taipei mayorship to the KMT's Hau Lung-bin (above left). But opinion polls suggest the DPP's candidate, Frank Hsieh, still enjoys the support of traditional DPP voters in the capital. In Kaohsiung, a port city in the south, the contest is far closer. Mr Ma's travails appear to have boosted the chances of the DPP's Chen Chu, who spent six years in jail during the authoritarian era for her role in pro-democracy protests in Kaohsiung in 1979.

Losing in Kaohsiung would be a setback for the DPP. But the city has never been a DPP stronghold. Votes usually split quite evenly. Half go to the DPP and other parties that likewise back Taiwan's formal independence from China, which still claims sovereignty. Half go to the KMT and others arguing for closer

ties with China.

Dachi Liao of Kaohsiung's National Sun Yat-sen University says both big parties have in fact been overstating the importance of these polls in order to rally supporters. Even if the KMT wins, Mr Chen is unlikely to waver in his apparent determination to stay in office until the end of his term in May 2008.

Regardless of the outcome, the DPP will face big internal struggles as it prepares for the presidential elections. Choosing a candidate will be divisive. Possible contenders include Frank Hsieh as well as Su Tseng-chang, the prime minister, Yu Shyi-kun, the party's chairman, and Annette Lu, the vice-president. Mr Yu and possibly Mr Su would face pressure to resign should the DPP lose both in Taipei and Kaohsiung. But politics move fast in Taiwan. Mr Su, for example, is the fifth prime minister since Mr Chen took office in 2000. So any fuss caused by their resignations would soon blow over. Mr Su will probably step down anyway in order to run for president. Mr Hsieh was prime minister until he resigned following the DPP's defeat in local-government elections a year ago. This did his political career no harm at all.

The KMT, too, faces troubled times. Before prosecutors began investigating alleged irregularities in Mr Ma's expenses, he was the clear favourite to win the presidency. If charges are made, party rules say his membership would be suspended. He has said he would then step down as chairman. Running for president would be difficult. This would be a huge blow to the KMT. No other candidate has Mr Ma's charisma. It would also be a blow to China, where a flattering biography of Mr Ma has recently been published. China sees chances for big improvements in cross-strait relations under a KMT presidency.

Neither big party will be in any mood for compromise with the other as they prepare for the presidential polls and for elections for the legislature late next year. Deadlock in the legislature—where the KMT commands a narrow majority—will continue, frustrating efforts to pursue much-needed political reforms.

Taiwan has a muddled balance of power between the prime minister, the legislature and the president. Unlike in, say, France, the president can appoint prime ministers from his own party even if it does not have a legislative majority. But, unlike in America, he cannot veto bills. Frequent changes of prime minister also disrupt legislative work.

There has been some progress. The next parliamentary elections will be held under new rules, adopted last year. Each constituency will return only one legislator. Under the previous system, constituencies had several seats, but voters only one vote. This favoured fringe candidates with radical views. As part of the changes, the legislature's term was extended from three years to four, like the president's. This will provide a little relief for Taiwan's overburdened electorate. Both the KMT and DPP agree that further reform is necessary. But that is about all they agree on.

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Indian politics

A murderous minister

Dec 7th 2006 | DELHI
From The Economist print edition

Shibu Soren's conviction may be a sign that Indian politics is getting cleaner

IN HIS home state of Jharkhand, Shibu Soren is called *guruji*, a term that mixes affection with respect. Mr Soren led the movement that culminated in Jharkhand's being hived off in 2000 from Bihar as a state in its own right. Yet on December 5th he was sentenced to life imprisonment for murder. Mr Soren resigned as coal minister last week, but is clinging on to his parliamentary seat, waiting to appeal. Ordinarily, having a convicted murderer sitting in parliament might be taken as proof of a sick democracy; in India it may be a sign that things are getting a little better.

The crime of which Mr Soren stands convicted dates back to 1993, when the Congress-led government in Delhi faced a no-confidence motion. He and four other members of his Jharkhand Mukti Morcha party were accused of having taken bribes to vote against the motion, saving the government's neck. But Mr Soren's secretary knew about the payments, and may have tried to blackmail his former boss. He disappeared, and in 1996 his skeleton was found in a village in Jharkhand.

AP

Look who's Soren now

For the Congress-led government that Mr Soren has just quit, his conviction is an embarrassment, though not a life-threatening one. This is partly because the main opposition Bharatiya Janata Party (BJP) has troubles of its own. On December 1st Navjot Singh Sidhu, one of its MPs, was convicted of culpable homicide (a notch below murder) for killing a man in an argument over a parking space. But it is also because India's voters have grown used to criminal charges against politicians. Among those calling for Mr Soren's resignation from parliament was Laloo Prasad Yadav, the railways minister, who is facing seven criminal investigations.

Parliament has proved a good place to hide out until the police come calling. One reason is that a curious Supreme Court ruling in 1998 makes MPs immune from prosecution for bribery. Of the 540-odd members of the lower house, around 100 have been charged with crimes, according to an analysis of affidavits filed by MPs in 2004 by the Public Affairs Centre, a think-tank based in Bengalooru (Bangalore). Of those 100, one-third face serious charges such as rape or kidnapping.

There are signs of improvement. Details of the charges against MPs were not public knowledge until a few years ago, when a campaign led by a group of academics resulted in their disclosure. At the time, all the parties resisted the move. Proof, says Jagdish Chokker, one of the campaigners, that “India's politicians can be unanimous and efficient on an issue that affects them all.” But the idea stuck, and now the two big parties ask potential candidates to disclose any charges against them before they are selected.

Mr Soren's case may also act as a deterrent to felons seeking election. Manoj Joshi, a leading journalist, thinks that the treatment of him and of Sanjay Dutt, a film star who was recently convicted of possessing weapons, “sends a message that the rich and powerful can no longer simply get away with it.”

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Australia's opposition

From Kim to Kev

Dec 7th 2006 | SYDNEY
From The Economist print edition

A new leader for Labor Party

Get article background

SINCE it lost power to the conservative coalition government led by John Howard ten years ago, Australia's opposition Labor Party had changed leaders four times. Kim Beazley, in his second stint, was preparing to lead Labor into a general election due in late 2007. But a series of recent gaffes gave his colleagues the jitters. First, he ignored pressure to include in his shadow cabinet Peter Garrett, a popular former rock singer with a knack for talking clearly about global warming. Then he publicly confused Rove McManus, an Australian television talk-show host, with Karl Rove, an adviser to George Bush. On December 4th, Labor members of parliament changed leaders a fifth time, dumping Mr Beazley in favour of Kevin Rudd, the party's foreign-affairs spokesman.

Mr Beazley had gone into the vote buoyed by an opinion poll showing Labor 12 percentage points ahead of the government after the distribution of second-preference votes. Mr Beazley himself, however, has consistently fared badly in the polls, because he has been unable to explain how, or indeed if, Labor differs from the conservatives.

This was partly a problem of Labor's own making. During its 13 years in power up to 1996, it adopted the conservatives' agenda and deregulated the economy, laying the groundwork for an economic boom that has since helped Mr Howard win four successive elections. In 2003, a year before the previous election, Labor installed the temperamental Mark Latham as leader. That proved a catastrophe.

Mr Rudd seems a better bet. A 49-year-old former diplomat, and China specialist, he has probably done more than anyone to equip Labor with an ideological identity. He champions the free market, but argues Mr Howard's "market fundamentalism" has driven Australia too far to the right, promoted greed and damaged family life. Labor's biggest challenge, he says, is to "reclaim the centre ground". In 45-year-old Julia Gillard, he has a tough-talking deputy; both score well in opinion polls, but entered parliament only in 1998. Mr Howard, who is 67, will contrast their relative youth and inexperience with his proven economic management. If the boom lasts until the election, this argument could condemn Mr Rudd to the same fate as his predecessors.

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Fiji

Cloud coup-coup land

Dec 7th 2006
From The Economist print edition

The military commander may find seizing power easier than keeping it

Get article background

IN A bloodless coup on December 5th that drew strong condemnation both at home and overseas, Fiji's military commander, Frank Bainimarama, seized power. Since then, top government officials have been dismissed, the press censored and an obscure retired army doctor, Jona Senilagakali, declared interim prime minister. This brash step from an army known for upholding the rule of law has perplexed many. It is far from clear that the takeover can be politically consolidated.

Coups in Fiji can be downright odd. Commodore Bainimarama put this one off for days: first, he said, to wait for the school holidays; then for a scheduled rugby match between the army and the police. After Laisenia Qarase, the prime minister, had caved in to all his main demands, he deposed him anyway.

In the days before the coup, legislation he opposed was dropped, the Australian-born police commissioner scooted abroad, and the government even declared a willingness to lean on the public prosecutor to drop charges of “sedition” against the commander. Commodore Bainimarama was still not satisfied. Mr Qarase refused to resign and allow a notionally constitutional transition, so the commander took power by force.

Fiji's neighbours have imposed sanctions, and the Commonwealth is expected to suspend its membership. But Australia's prime minister, John Howard, has ruled out military intervention. Even so, the commander seems jittery and on December 6th declared a state of emergency.

In the past, the origins of Fiji's coups—both in 1987 and 2000—have lain in friction between the country's 55% ethnic-Fijian and 40% Indian populations. Not so this time. The armed forces are solidly ethnic Fijian, and Mr Qarase's party won 80% of the ethnic-Fijian vote in May's general elections. Fiji's other big political party, the Fiji Labour Party (FLP), which received 81% of the Indian vote, is also in one respect a victim of the coup. After the elections, Mr Qarase unexpectedly formed a power-sharing government with the FLP, promising a new, more co-operative style of inter-ethnic relations.

Commodore Bainimarama harbours an intense hatred of the Qarase government, though he himself initially installed it after the 2000 coup. Mr Qarase has since won two elections. But the commander has challenged his government's legitimacy and flouted its orders with increasing boldness. Accusing it of going soft on the perpetrators of a previous coup in May 2000, and of a mutiny that November, he promised a “clean-up”.

Many sympathised with this. But snatching power has thoroughly tarnished his former anti-coup mission. The commander has few friends left outside the armed forces. Even his long-time protector, Ratu Josefa Iloilo, the president, who is in poor health, refused to rubber-stamp his quirky citation of a “doctrine of necessity”.

To consolidate the coup, Commodore Bainimarama needs to sustain unity within the armed forces. He also needs respectable politicians to give his new interim government the semblance of legitimacy. And he will need to overcome Fiji's still reasonably robust legal system, and its police force, whose ousted leaders have threatened “passive resistance”. Over recent years, Commodore Bainimarama has purged senior military ranks and over-promoted his own placemen. Even so, it may prove difficult to keep unified support. This was previously sustained by appeals to good governance, constitutionalism and the rule of law. Now the army has to accustom itself to installing and upholding an illegal, unconstitutional regime.

Even politicians close to the commander, or standing to benefit from the coup, may be wary of high office. After the failure of the 2000 coup, several politicians were convicted of “swearing an illegal oath”. Any who

do so now may find the oaths haunting them in the courts. The commander's appeal to legal doctrine is scarcely likely to receive judicial sanction, unless he turns the courts into a pliable instrument for his own personal rule. Without that, judges are likely—as they did back in March 2001—to declare the interim regime illegal and to insist on a restoration of the deposed government.

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Bangladesh's elections

Read our chests

Dec 7th 2006 | DHAKA
From The Economist print edition

Why the umpire's decision is never final in Bangladesh's politics

EPA

Get article background

IN CRICKET, Bangladesh's favourite sport, video technology has helped umpires make better decisions, producing a fairer game. The country's politics are also in sore need of a practical tool to prevent or reverse bad calls. The two main political parties, the Bangladesh Nationalist Party (BNP) and the Awami League, find it impossible to reach a common interpretation of democratic rules and to accept the legitimacy of those enforcing them.

On December 5th, the two parties agreed to suspend their mud-slinging contest, at least temporarily. The “council of advisers”, running the supposedly neutral caretaker government that is to oversee general elections due in January, began asserting itself. This led the League to suspend a strike and blockade it had staged in protest at the electoral arrangements. The day before, three people had been shot dead and 11 wounded in a gunfight between supporters of the two big parties. This was the fourth in a series of crippling strikes since the five-year term of a coalition between the BNP and its Islamist allies ended in October. At least 34 people have died in pre-election violence.

For now life is back to normal. The advisers met some of the opposition's demands, replacing two controversial election commissioners, promising to correct the voter list and shuffling senior bureaucrats. They have not, however, deferred the poll date beyond the deadline of January 25th, by when it is unlikely that credible elections can be held. The League also still demands that the president, the chief justice and attorney-general resign.

The focus for now is on the voter list. The National Democratic Institute (NDI), an American lobby group, said on December 2nd that its survey of the list showed that 12.2m names were “either in error or duplicates”. That means the listed voters exceed the estimated number eligible (about 80m) by roughly the population of Dhaka. The NDI says migration is one important reason for duplication. Owen Lippert, its resident director, said that “with improvements” the list could play a part in a credible election.

Many domestic observers are less sanguine. Brotee, a Dhaka-based election monitor, is preparing its own voter lists for 30 out of Bangladesh's 300 constituencies, covering about 7.5m voters. The League hopes the results, expected this month, will add to pressure to postpone the polls.

The political stand-off may do lasting harm to the country's institutions. A dysfunctional parliament was dissolved on October 27th. A few days later the (largely ceremonial) president had himself appointed “chief adviser”—ie, head of the caretaker administration. Last week a case challenging the legality of this

move was stayed by the chief justice. This led to a riot in the Supreme Court's premises and for many confirmed suspicions that Bangladeshi justice is partisan. A controversial chief election commissioner has gone “on leave”, only for another divisive figure to stand in. Nor has there been a thorough purge of biased officials.

The mechanism intended to save democracy from viciously confrontational two-party politics—an unelected caretaker government—has failed. With the country just the right side of anarchy, the army has so far chosen the role of an impartial spectator. The usual assumption is that the BNP, whose origins lie in the armed forces, would benefit if the generals stepped in. But the elections are drawing nearer and continued strikes would threaten lives and the League's popularity. Rather than trying to change a system it sees as rigged against it, the League might now even countenance an umpire in uniform.

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The Philippines and Vietnam

Typhoon Durian

Dec 7th 2006
From The Economist print edition

TWO of the natural scourges of the Philippines, volcanoes and typhoons, combined on the night of November 30th to create huge flows of mud that buried at least 700 hamlets. Five days later, the authorities had counted 543 dead and 740 missing. Typhoon Durian swept over Mayon, a volcano in the east of the country, raining torrentially on its slopes and washing down tonnes of rock and ash that had lain there since its last eruption. Such calamities hit the Philippines all too often, but rarely are efforts made to give the survivors an economic alternative to living in such dangerous places. Downgraded to a tropical storm, Durian has since torn a swathe of destruction along the south coast of Vietnam. Dozens of people there were killed and thousands of homes destroyed.

EPA

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America and the Philippines

A sacrificial rapist?

Dec 7th 2006 | MANILA
From The Economist print edition

A popular verdict, but controversy lingers over a rape case

AFTER a trial resonant with political overtones, a court in Manila on December 4th produced a popular verdict. An off-duty American marine was found guilty of raping a drunken 22-year-old Filipina in November last year. This dispelled a widely held belief that, in its dealings with America, the Philippines inevitably kowtows to its former colonial master. The court sentenced Lance-Corporal Daniel Smith to up to 40 years in prison for raping the woman in the back of a van in the former American naval base at Subic Bay, just west of Manila. The three other off-duty American marines in the van at the time were found not guilty of being accessories.

The trial was the first big test of the Visiting Forces Agreement (VFA) between Manila and Washington, without which American forces could not be sent to train the Philippine armed forces to fight Muslim and communist rebels that America regards as terrorists. The agreement gives Philippine courts jurisdiction over American servicemen in certain circumstances. The Philippines ratified the VFA in 1999 in the teeth of intense popular opposition. Many equated the presence of American forces with the colonial yoke. Until 1992, America had maintained two of its largest military bases in the Philippines. Nationalist opinion was inflamed by claims that American servicemen sometimes, literally, got away with murder.

The government's spokesman described the verdict as “a triumph of impartial justice”. An acquittal would have laid the government open to accusations that it was so dependent on American military aid that it would always ensure that American servicemen who broke the law would escape punishment. In the courtroom, members of the public cheered the verdict. Outside, demonstrators from left-wing and feminist groups chanted with delight.

From the lairs of the communist or Muslim separatist rebels in the countryside, there was little in the way of reaction. They had been quietly hoping for an acquittal, in the expectation that this would lead to a general clamour for the abrogation of the VFA and so ensure that American soldiers would be barred from Philippine soil.

The outcome suits the government, but doubts remain. Corporal Smith's lawyer has described him as a “sacrificial lamb”. His client is appealing against the conviction. He admits he had sexual intercourse with the complainant, but says she consented. The court ordered him detained in a Manila jail, but America, following the letter of the VFA, has demanded custody while his appeal is heard, rekindling popular suspicion that he will dodge the lengthy sentence.

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Lebanon

A battle for the nation's heart

Dec 7th 2006 | BEIRUT
From The Economist print edition

AFP

The outcome of a bitter struggle in the streets of the capital could affect the balance of power in the wider region

SOON after last summer's war brought ruin to Lebanon, a clever advertising campaign helped boost morale. “Keep Walking”, said billboards for Johnnie Walker whisky that showed the eponymous dandy in his riding coat striding along, next to the silhouette of a fallen bridge. A new, updated version carries the same jaunty caption, but the overcome obstacle is an intricate maze. The hopeful reference is to Lebanon's own Byzantine politics. But unlike the dauntless Mr Walker, Lebanon is not moving. It is stuck.

Talks between faction leaders, aimed at bringing the opposition into a unity government and soothing tensions raised by the war, collapsed last month. Since then, fractures between religious sects, divided political loyalties and clashing understandings of Lebanon's own history and identity have widened dangerously fast.

The polarisation is being graphically enacted in central Beirut. Opposition protesters have erected a festive city of 600 tents (many of them donated by relief agencies for war refugees) below the Saray, an Ottoman-era barracks that serves as the office of the embattled prime minister, Fouad Siniora. Huge crowds gather nightly to chant for his downfall, even as he receives endless delegations of supportive dignitaries. Elsewhere amid the city's sectarian patchwork, the presence of some 20,000 army troops has not stopped brawls from breaking out between pro- and anti-government gangs. One person has been killed so far; expect more deaths.

The showdown, which has brought Lebanon's economy to almost as complete a halt as the recent war, shows no sign of ending soon. The protesters claim to represent most of Lebanon's 5m people, and certainly are backed by the vast bulk of its 30% Shia minority as well as disgruntled Christians, pro-Syrian factions, communists and others. They charge Mr Siniora with corruption, incompetence and submissiveness to Western powers, and say that last month's resignation of Shia ministers rendered the government illegal, since the constitution says that cabinets should fairly represent every sect. They insist that their vigil will not end until the prime minister, who must by law be a Sunni Muslim, appoints enough opposition ministers to grant them an effective veto over policy.

Mr Siniora's government, several of whose members have feared leaving the Saray since last month's assassination of their fellow minister, Pierre Gemayel, scion of a leading Christian clan, has offered the opposition a bigger share of posts. But it remains adamant that this must fall short of a veto quota: that would fly in the face of the parliamentary majority won by the anti-Syrian coalition in an election after Syrian forces, once overlords, left Lebanon in high dudgeon last year.

This week, Mr Siniora was said to have accepted a proposal to up the number of cabinet posts from 24 to 30, giving nine or ten to the Hizbullah-led opposition, 19 to the anti-Syrian coalition and a couple to neutrals. Not enough, said Hizbullah. Mr Siniora's lot say they will accept a unity government on several conditions. Parliament, they say, must give the go-ahead for a tribunal to look into the murder of Rafik Hariri, the five-times prime minister killed by a car bomb in February 2005. Also, there must be an early presidential election; the current president, Emile Lahoud, is a pro-Syrian Christian whose term was controversially extended in 2004.

In the government's view, the demonstrations are subverting democracy. Their aim, it asserts, is not so much to achieve a sectarian balance as to bring Lebanon back into the orbit of Syria and its ally, Iran, so as to renew “resistance” against their mutual enemy, Israel. Hence the opposition's determination to block approval of an international tribunal to try suspects in the murder of Lebanese critics of Syria. The government also says the opposition wants to scale back Lebanese co-operation in keeping peace on the border with Israel, where a 10,000-man UN force patrols alongside the Lebanese army.

“We are here to implement democracy,” says Saad Hariri, a Sunni strongman and political heir to his murdered father. “They are here to implement a 22-year-old Iranian project.” Nawaf Musawi, Hizbullah's foreign-affairs chief, counters that it is the government's acceptance of UN troops and foreign aid that is whittling away Lebanese sovereignty. “They're taking us back to the status of a mandatory state,” he asserts.

On the ground, the opposition appears stronger. The demonstration that began their protests brought out more than 1m enthusiasts, a gathering at least as big as those in last year's Cedar Revolution against Syrian tutelage. Hizbullah, the Iranian-financed and Syrian-equipped Shia party that fought Israel, lends the opposition formidable organising skill as well as the quiet menace of its unrivalled guerrilla force. Ceaseless propaganda beams from opposition radio and television stations, such as Hizbullah's Al-Manar.

But Mr Siniora is not bereft of resources. Aside from Western powers and Sunni Arab allies such as Saudi Arabia, he enjoys strong support from anti-Syrian Christian factions; he also has near-unanimous backing from the Sunni and Druze minorities, who make up about 30% and 6% respectively of Lebanon's people. The pro-government media blast out plenty of countering tirades.

In fact, there is a striking symmetry between the two sides. Each accuses the other of being the stooge of foreign powers, of stoking sectarian rivalry and of “trading in the blood of martyrs”. Whereas the government used the killing of Mr Gemayel to rally its supporters, Hizbullah fanned opposition fury by wheeling the flag-draped coffin of a shot Shia youth into the downtown protest, amid televised cries of “Death to Siniora!” Both sides claim majority backing, and both see the clash as a defining moment for Lebanon—perhaps even for the wider region. Neither is in a mood to give in.

How will it end? No one is sure, though the momentum seems to be with Hizbullah. The West, especially the Americans but also the European Union, are keen to keep Mr Siniora going. Conservative Arab governments, especially in Egypt, Jordan and Saudi Arabia, are worried. If Mr Siniora is forced out of office at Hizbullah's insistence, angry Sunni Arab fears of a new “Shia arc” stretching from Lebanon across to Iraq and on to Iran—the image gloomily aired last year by Jordan's King Abdullah—will grow.

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Israel

Rowing Rabbis (cont.)

Dec 7th 2006 | JERUSALEM
From The Economist print edition

The simmering dispute over how Jewish the Jewish state should be

AFP

The radical chief rabbi and his fiery propositions

“WHO is a Jew?” is again the question splitting Israeli society. Last month Israel's chief rabbinate proposed legislation denying all converts to Judaism the privilege, which they (along with born Jews) now enjoy, of claiming automatic Israeli citizenship under the “law of return”.

This seemingly self-defeating move—after all, Israel always wants more Jews to immigrate—stems from long-standing tension between Israel's religious and secular natures. The Orthodox chief rabbinate was originally granted a monopoly over matters of personal status, such as conversion, marriage and burial, but Israel's supreme court has gradually eaten away at it. Converts to one of the non-Orthodox Jewish denominations that are popular elsewhere but have little authority in Israel, such as Reform and Conservative, can now claim Israeli citizenship if they converted abroad. The court may well rule soon that conversions performed in Israel count too.

The rabbinate's radical bill is meant to pre-empt this. Its fear is that while converts from abroad are fairly few, tens of thousands of foreign workers living in Israel will line up for the supposedly easier (in fact, still quite demanding) forms of conversion, get their passports and stay permanently. And since the rabbinate still won't accept them as Jews, pressure will then build to break its monopoly on marriages, either by letting other denominations perform them or by instituting civil marriage, which does not yet exist.

The pressure already exists. A Jew can be born only to a Jewish mother, but the law of return, to make immigration easier from countries where anti-Semitism was once rife, lets any child or grandchild of a Jew, and their spouses, come to Israel. As a result, some 300,000 “Jewish” Israelis are not technically Jewish, so cannot marry in Israel or be buried in most Jewish cemeteries. Their lobbying power is growing.

Yossi Beilin, leader of the left-wing Meretz party, this week countered the rabbinate's bill with one proposing “secular conversion”, a legal flourish to make those 300,000 Jewish in the state's eyes. But since that would not alter the rabbinate's powers, it would solve little. Neither bill stands much chance of becoming law.

However, secular and non-Orthodox Jews are not the rabbinate's only critics. Some mainstream Orthodox rabbis think its domineering approach alienates people from their own religion. Many Jewish

couples marry abroad, including some who want religious weddings, simply because “they don't want to deal with the rabbinate”, says Rabbi Benny Lau, himself a nephew of a former chief rabbi. Most Israeli Jews, he thinks, want a “soft Judaism”, with Jewish values permeating the country rather than religious diktat ruling their lives. He argues for minimising the rabbinate's legal powers and forcing it to act “as a public servant, not a judge”. Others think religion might even flourish best if religion and state were quite separate.

This is as much a turf war—the rabbinate's control over things like marriage, burial, religious education and kosher licensing gives it a great deal of power—as an ideological debate about the nature of the Jewish state. Either way, Israel has never made much progress towards solving it.

This week alone, the conflict reared two more of its heads. Yuli Tamir, the education minister, came under rabbinical attack for deciding to put the “Green Line”—Israel's internationally recognised border, which separates it from the Palestinians' occupied territories—back into school textbooks, from which it has been absent for decades. And El Al, the national airline, faced boycott threats for allowing some flights on the Sabbath in an attempt to catch up after a strike grounded them. Such clashes may grow more frequent.

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Madagascar

A nice dairy tale

Dec 7th 2006 | ANTANANARIVO
From The Economist print edition

A hopeful president is set for re-election to run one of Africa's poorest countries

AFP

ELECTIONS in Madagascar can be turbulent affairs. Following the presidential poll of 2001, the defeated incumbent, Didier Ratsiraka, refused to bow out, plunging the country into eight months of turmoil. He eventually chose exile, conceding defeat to Marc Ravalomanana, the mayor of the capital, Antananarivo. So, five years on, Malagasies were anything but relaxed as they went to the polls on December 3rd. But so far things look much quieter than last time, and Mr Ravalomanana, a self-made dairy tycoon, is expected to win easily over 13 other presidential hopefuls. This should give him five more years to go on reforming one of the poorest and most inward-looking countries in Africa.

There could still be grumbling over the results, expected before Christmas. Despite improvements, the electoral process remains flawed, so disappointed losers may question Mr Ravalomanana's victory. In any event, the opposition is in complete disarray. Mr Ratsiraka's party has not recovered from the exile of its leaders and is hopelessly divided. The president's critics accuse him of being autocratic and using his office to promote his businesses. But his opponents, some of them former allies, do not have much of a programme or popular appeal.

Besides, the dynamic Mr Ravalomanana has some solid achievements. His government has built and upgraded roads, schools and hospitals. It fights petty corruption. According to the World Bank, the countryside, where most people still live, is getting less poor. Textile factories, closed due to the turmoil in 2002 and to Chinese competition, are reopening with a new focus on high-quality niches. The government wants more trade with mainland Africa and Asia. An animated Hollywood film named after the country has put the island on the map: its rare animals and fabulous beaches are bringing in more tourists.

Oil and mining companies are also taking a keen interest in Madagascar's array of untapped minerals. A new mining code has helped lure investors such as Rio Tinto and Canada's Dynatec and Alcan. The island is rich in all kinds of gems, though many are still smuggled out. ExxonMobil is looking for off-shore oil. The government reckons that, from less than 4% today, oil and mining could contribute over 30% of GDP by 2011.

The country badly needs such investment. GDP per person is about $300 a year. Most of the economy is informal; the government relies on foreign handouts. Prices for vanilla, once the traditional export, have nosedived. Most of the nearly 19m Malagasies barely survive off tiny plots of land for which they often hold no title, growing rice in the old way. Just outside Ambohibary, a little village east of Antananarivo, a farmer labours on a tiny rice plot with four of his eight children. His grandparents once owned several hectares, he explains, but they were divided among ten children, each with seven or so descendants. The rice he grows cannot feed his family; he must also earn cash as a bricklayer and lumberjack.

The extra revenue from mines and oil-rigs may help the government improve things. But mineral wealth elsewhere in Africa has too often been squandered. Yet Madagascar's isolation has provided at least one bonus: it has protected its people from HIV/AIDS. Over on the mainland, one in five adults has the virus, while less than 1% of Malagasies are infected. If mining and tourism take off, that may change. So far, the government has shown commendable foresight. The president himself went through a very public

HIV test earlier this year and educational campaigns are in full swing. With luck, the government will show equal wisdom when the oil and mining royalties start to flow.

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South Africa

At last, policy on AIDS may change

Dec 7th 2006 | JOHANNESBURG
From The Economist print edition

Some reasons for hope in a life-and-death battle

Get article background

WITH 5.5m South Africans suffering from HIV and about 950 AIDS deaths every day, the government has long failed to do enough to fight the pandemic. But now it seems to be changing tack. On December 1st, it released the outlines of a new plan to fight the disease over the next five years. More strikingly, there seems to be a new spirit of co-operation between the government and some of its fiercest critics on the subject. Whether this will eventually translate into tangible improvements on the ground remains to be seen.

Manto Tshabalala-Msimang, the controversial health minister who was berated at a Toronto AIDS summit earlier this year for her appalling handling of the disease, is still officially in place, but illness has prevented her from carrying out her duties for months. Instead, others are charting new directions. The deputy president, Phumzile Mlambo-Ngcuka, is reviving the moribund South African National AIDS Council, which brings together government, business, doctors and other groups involved in fighting the disease, to thrash out a new strategy. And the deputy health minister, Nozizwe Madlala-Routledge, is also bringing much-needed openness to the table.

Clear messages that HIV causes AIDS and that antiretroviral drugs are essential are now coming from officials. Relations with those involved in fighting AIDS outside the government, many of whom had been calling for the health minister to be sacked, have improved considerably. Mark Heywood of the Treatment Action Campaign (TAC), an anti-AIDS lobby that has been taking the government to task for years, confirms that there has been a genuine change in attitude over the past two months. The organisation has had good meetings (inconceivable with the health minister) with both Ms Mlambo-Ngcuka and Ms Madlala-Routledge; there has been real collaboration over the new plan. Francois Venter, head of the Southern Africa HIV Clinicians' Society, agrees that a fundamental change has taken place.

Attitudes may be changing, but for the moment the government's new plan is still vague and short on targets. Yet with groups such as TAC now on the inside, helping to formulate policy, rather than screaming helplessly from the sidelines, the government plans to fill in the blanks by March. The fate of the health minister, however, is still uncertain; no one knows when or if she will be back to hold things up again. In the meantime, anti-AIDS campaigners are pinching themselves, hoping for the best.

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Turkey and the European Union

The ever lengthening road

Dec 7th 2006 | ISTANBUL
From The Economist print edition

The obstacles in the way of Turkey's membership of the European Union get ever more daunting

“FIRST they tied our arms, now they are going to tie our legs.” The words of a top Turkish official sum up the gloom in Ankara as European Union leaders prepare for next week's summit in Brussels, where they will once again argue over Turkey. Whatever the outcome, Turkey's prospects of being the EU's first mainly Muslim member have never seemed so bleak.

Turkey's long-delayed membership talks opened almost 15 months ago amid much fanfare. “Hello Europe” read one newspaper headline. But the talks soon ran into trouble over Turkey's rejection of the EU's demand that it fulfil its legal obligation to open its ports and airports to traffic from Cyprus (ie, the internationally recognised Greek-Cypriot republic). The Turks rebuffed a deadline of December 6th, insisting that they will not give way until the Europeans fulfil their own promise to end the trade embargo on Turkish northern Cyprus.

The European Commission has proposed the suspension of eight of the 35 chapters in the membership talks. This week the French president, Jacques Chirac, and the German chancellor, Angela Merkel, endorsed this plan, and also called for a full review of Turkey's progress in early 2009. “We don't want to set any kind of ultimatums,” said Ms Merkel, who wants Turkey to accept a “privileged partnership”, not full membership. “But we want the commission to say to us what has been achieved and how we could proceed.”

Late into the week, negotiations continued under the Finnish EU presidency. A Turkish offer to open one port and one airport to Cyprus seems unlikely to work as it is clearly dependent on a reciprocal offer by the Greek-Cypriots. If no compromise is found, little progress will be made. Relations will worsen if Nicolas Sarkozy becomes France's president next spring: unlike Mr Chirac, he is fiercely against Turkish membership.

Turkey's hopes are now pinned on the Americans. President Bush is expected to embark on a round of telephone diplomacy this week. He may secure a reduction in the number of frozen chapters. But regardless of their number, suspended chapters can be reopened only with the unanimous approval of all EU members. This “leaves the door open for them to impose further intolerable conditions on us,” comments the top Turkish official.

Most Turks believe that Turkey's detractors simply do not want a large, Muslim country in their midst. Their aim is to wear down Turkey's resistance and induce it to walk away. Yet the mildly Islamist prime minister, Recep Tayyip Erdogan, says he will not fall into that trap. “Forcing Turkey to abandon the [negotiating] table would be a dreadful mistake; Europe, not Turkey would stand to lose,” he said this week. He added that Turkey would pursue its membership goal with determination and, moreover, that it had a plan B and C.

Nobody seems to know what such plans might entail, but government sources hint that consultations with the EU over, say, Afghanistan and Iraq, or on drugs and human trafficking, may be slowed down. Instead Turkey will try to repair relations with America that remain fraught over Iraq, especially over the increasingly autonomous Kurds in northern Iraq. It will also build up its role in the Middle East, the Caucasus and the oil-rich former Soviet central Asian countries.

Cocking a snook at the Europeans could help Mr Erdogan's AK party to win votes in parliamentary elections due next November. Public support for the EU has already dropped to well below 50%, down from highs of 80% or more two years ago. Mr Erdogan will also take heart from the economy, which has grown by an annual average of 7% since 2001, four times as fast as the EU's. The markets seem unfazed by the rows over EU membership; the Turkish lira rose against the dollar this week.

Most Turks believe that Turkey's detractors simply do not want a large, Muslim country in their midst

But economic progress hinges on whether Mr Erdogan sticks with his IMF-imposed reforms. It may also depend on whether he decides to become president when the incumbent, Ahmet Necdet Sezer, retires in May. Turkey's militantly secular generals recoil at the thought of both the presidency and the government being run by Islamists. How far they might go to stop this remains a vexing question. The EU membership talks have provided the most effective rein on the generals so far.

Just as ominously, Mr Erdogan's claim that he will continue with political reforms, regardless of what happens over the EU, is beginning to look shaky. Article 301 of the penal code, under which Orhan Pamuk, Turkey's best-known novelist, was prosecuted last year, remains on the books. Human-rights abuses against the country's 14m Kurds have been curbed but by no means stopped altogether.

Meanwhile, Mr Erdogan's tired assertion that rejecting Turkey would provoke a “clash of civilisations” by sending a message to the Muslim world that the EU is a Christian club, is exaggerated. “Turkey has no real connection to the Arab world, so whether Turkey gets into Europe or not doesn't really matter to the ordinary guy in Amman or Riyadh,” says Yusuf Al Sharif, a Palestinian commentator. “There isn't even an Arab cultural centre in Turkey.” Mr Erdogan's overtures to Iran and Syria (he visited both countries this week) have less to do with Muslim solidarity than with a common desire shared by all three to prevent the emergence of an independent Kurdish state in Iraq.

In short, both sides in this dispute need to regain some perspective. Turkey is right to feel cheated over Cyprus (the Greek-Cypriots won EU membership even though they voted in April 2004 against the UN's Annan plan to reunite the island, whereas the Turkish-Cypriots remain isolated even though they voted in favour). But it must also show that it is sincere about pursuing EU-inspired reforms. If the EU is to regain its moral authority with the millions of Turks who long to have a full-blown modern democracy, it needs to prove that membership of its club is not only the best way to achieve that goal—but also one that is still genuinely on offer.

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Kosovo's future

Delay, delay

Dec 7th 2006
From The Economist print edition

A cloud hangs over the province's long-expected independence

AT THE start of the year, Kosovo's Albanians were confident of being independent by the end of it. Now they are nervous. A week ago, thousands marked the Albanians' national day by protesting in Pristina, Kosovo's capital. Paint and rocks were thrown at United Nations buildings.

EPA

Local views of the United Nations

Kosovo is part of Serbia, although since the war of 1999 it has been under UN jurisdiction. Some 90% of its 2m people are ethnic Albanians who want independence, which Serbia's leaders refuse to concede. In February the UN asked Martti Ahtisaari, a former Finnish president, to preside over talks on Kosovo's future, but the talks have failed—a failure that Mr Ahtisaari blames on Serbia's unwillingness to engage in constructive dialogue. So Mr Ahtisaari has prepared his own plan. But he is keen not to boost Serbia's extremist Radical Party, whose leader, Vojislav Seselj, is on trial (and on hunger strike) at The Hague war-crimes tribunal, in the January 21st election. He has therefore put off its delivery.

The plan is expected to suggest a conditional form of independence for Kosovo. So why the nervousness among Kosovars? Diplomats talk of a “double disappointment”. Kosovar leaders promised independence by the end of this year, but it has now been delayed. And all the signs are that the Kosovars will gain less control over their lives than they had hoped.

After Mr Ahtisaari presents his plan in early February, there will be weeks of bargaining inside the UN Security Council, most of whose members favour independence, though Russia does not. With luck a new resolution might be passed in March—but Russia's ambassador to Belgrade says his country is ready to veto Kosovo's independence. Kosovars had assumed that individual countries would quickly recognise their new state, but that may be in question too. If there is a new resolution, a new mission will succeed the UN's. The European Union, which will dominate this mission, wants the handover to take no more than three months, but the UN wants up to six. So “status day” may come at least six months late.

Agron Bajrami, editor of *Koha Ditore*, a Kosovo daily, says that delay is bad, but the real fear is that it “could result in a different outcome.” That does not mean Kosovo would stay part of Serbia, but that independence would be hedged about with unacceptable conditions. As one diplomat involved says, the new international mission will have “far-reaching correctional powers”. In practical terms, many people may see little difference between the EU-led mission and the UN-led one.

Gerald Knaus, head of the European Stability Initiative, a think-tank based in Berlin, points to a third source of disappointment in Kosovo. Research by ESI has found that fewer families now get the

remittances from relatives abroad that have kept them afloat for the past 15 years. There are equally false expectations that independence will quickly bring prosperity to this economic basket-case.

Kosovars are not the only ones fretting about the future. A top Serbian official notes that Russia's hardening of its position could encourage headstrong Albanians to resort to violence again—leading to an exodus of tens of thousands of remaining Kosovo Serbs. Foreign investment in Serbia, which is expected to be worth $3.5 billion this year, could soon dry up if the region heads back into conflict.

If Russia blocks a new resolution on Kosovo, there is no fallback plan. Vojislav Kostunica, Serbia's prime minister, has hinted to neighbours such as Macedonia that they might be subjected to an embargo if they unilaterally recognised Kosovo. Mr Kostunica feels some things are going his way. At its Riga summit last month, NATO invited Serbia to join its Partnership for Peace programme, the first step to membership. Previously, it had insisted that Serbia must first arrest General Ratko Mladic, indicted by the war-crimes tribunal. Mr Kostunica's conclusion from NATO's willingness to overlook this condition is that, if only he hangs tough, foreign unity will crack. He is hoping to see this happen over Kosovo.

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Italy's divided opposition

A plague on both your houses

Dec 7th 2006 | ROME
From The Economist print edition

The centre-right opposition is in trouble in Italy and Spain (see article)

NOTHING seems to go right for Silvio Berlusconi these days. December 2nd should have been his finest hour since he lost power to Romano Prodi's centre-left coalition in April. In part, it was. Mr Berlusconi had called a demonstration in Rome against the government's planned tax increases and, on police estimates, it drew some 700,000 people, waving flags and chanting “Silvio, Silvio”.

But more important than the numbers on the streets were the numbers on the platform. Mr Berlusconi's centre-right coalition, the House of Freedoms, comprises four main parties. But only three of their leaders attended the rally. The fourth, Pier Ferdinando Casini, was conspicuously absent. His Union of Christian Democrats (UDC) held its own rally in the Sicilian capital, Palermo.

Worse followed. Mr Casini said that the House of Freedoms “did not have a point any more” and announced that he would boycott leadership meetings. The implications for Mr Berlusconi are serious. One in every seven votes for the centre-right in April went to the UDC, one of several parties formed out of the disintegration of Italy's once-dominant Christian Democrats. Without support from the UDC, the centre-right is doomed to perpetual opposition.

Why is Mr Casini rebelling? The most cynical explanation is that he has a personal interest in the survival of Mr Prodi's government. If it endures until 2011, the centre-right will surely need a new candidate for prime minister. Mr Berlusconi is now 70, he has been treated for cancer and, on November 26th, he collapsed at a rally and spent three nights in hospital undergoing tests. The telegenic 51-year-old Mr Casini is a favourite to succeed him.

Personal ambition apart, the UDC has long been a square peg in the round hole of the House of Freedoms. Mr Casini and many of his followers dislike Mr Berlusconi's populism and think that a less aggressive style of opposition would give the centre-right greater credibility. They are especially reluctant to criticise liberalising reforms introduced by the Prodi government which the centre-right signally failed to adopt when it was in office. A second tranche of such measures, abolishing barriers to entry in the professions, was approved by the cabinet last week.

Mr Casini's mutiny is also an early product of something that goes barely undebated in Italy, yet is likely to have a huge impact on its politics over the next few years. The country desperately needs extensive—and mostly unpopular—reforms. Yet, as the Berlusconi administration's dismal record showed, it is hard to agree to any of these so long as coalition governments are made up, as now, of many small parties. Both Mr Prodi, who has to wrestle with a nine-party coalition, and Mr Berlusconi have hinted that they would prefer to move from the present two-alliance system to a real two-party one. This could happen as the result of an electoral-reform bill now being discussed among party managers; or it may follow a referendum being planned by a group of electoral reformers across the political spectrum. Either way, it could doom the UDC to irrelevance, or even extinction.

Mr Casini insists that he is not just hanging on for the leadership of the existing centre-right, but rather wants his party to become the nucleus of a third force in Italian politics. The dream of reassembling the remnants of the old Christian Democratic party so as to control Italian politics from the centre is a longstanding one. But polls suggest it is likely to remain only a dream. Italians want a two-party system, and are adapting to confrontational politics. A survey this week in *Corriere della Sera* found only 11% of voters saying they belonged to the centre. For Mr Casini, loyalty may be the best option.

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Spain's bickering opposition

Popular peevishness

Dec 7th 2006 | MADRID
From The Economist print edition

The People's Party loses its way

LIFE could hardly be better for Spain's former prime minister, José María Aznar: he travels the globe, sits on the board of Rupert Murdoch's News Corp, and lectures happily to Washington think-tanks. The same cannot be said of the conservative People's Party that he led until March 2004, just before it lost an election. Almost three years on, the PP has also lost its way. Internal bickering fills the newspapers; senior figures jostle to succeed the present leader, Mariano Rajoy, if he stands down after the next election in early 2008.

National politics in Spain is a two-party affair. If the PP is to oust the Socialist prime minister, José Luis Rodríguez Zapatero, it needs voters in the centre. But it shows no sign of wooing them. Instead, it angrily opposes all government initiatives, from gay marriage to Catalan devolution, to peace talks with the Basque terrorist group, ETA. Like Britain's Conservative Party in the past, it risks seeming to be a “nasty” party. A recent video attacking Mr Zapatero's record on crime, which included pictures of violence from the time when the PP was in power, has not helped.

AFP

Some still ask whodunnit

Yet at the root of the PP's troubles is its inability to shake off the trauma of its loss of power. This came three days after Muslim terrorists killed 191 people on Madrid trains. The day before the vote, angry protesters came out on the streets demanding to know who was to blame. Was it ETA, as Mr Aznar insisted, or Islamists? As the evidence leant towards the second, voters who had been ready to vote for the PP shifted.

Prosecutors and police are now convinced that only radical Muslims were involved. Seven blew themselves up in a mass suicide three weeks later, as they were about to be arrested. But senior PP figures have openly fanned conspiracy theories that still try to establish some link between the Islamists and ETA.

The noise over the March 2004 bombings drowns out the PP's more centrist message. Strategists want hard-core voters to stay loyal; they fret that a new far-right party may emerge. The warm and witty Mr Rajoy ought to be the perfect antidote to any nasty image. But he has failed to stamp his personality on the party. “He is too polite, too much of a gentleman,” complains an observer. Mr Aznar's shadow lingers on as well.

Polls put the Socialists ahead, though their lead varies (some say it is only 1.4 points). The head of Madrid's regional government, Esperanza Aguirre, and Madrid's mayor, Alberto Ruiz-Gallardón, may increase their majorities in regional elections next year. But they are the PP's bickerers-in-chief. As Mr Rajoy said of a new book in which Ms Aguirre lays into Mr Ruiz-Gallardón: “What a troop!” Where, one might ask, is the general?

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The French presidential race

Candidate inflation

Dec 7th 2006 | PARIS
From The Economist print edition

How a plethora of runners might help centrists in next spring's election

ONE by one, the presidential candidates step forward—or should that be ten by ten? As many as 40 now promise to stand in France's two-round election in April and May. Some will struggle to secure the 500 signatures of elected officials they need. But France clearly has a bad dose of candidate inflation.

The latest hopeful is François Bayrou, leader of the centrist Union for French Democracy (UDF). His declaration followed that of Nicolas Sarkozy, the interior minister and leader of the centre-right UMP party. Mr Sarkozy could face a challenge for his party's nomination from Michèle Alliot-Marie, the defence minister, when its members vote in January. But he remains the overwhelming favourite.

Most other aspirants are first-timers. They include a Utopian, a federalist and a former rector of the Marseilles mosque, plus contestants representing taxpayers, pensioners, the unemployed and the handicapped. Rachid Nekkaz, a Sorbonne philosophy graduate and son of north African immigrants, who says he is “apolitical”, claims to have 500 signatures already. Edouard Fillias, a 27-year-old who bravely wants to reconcile France with liberalism, is working on them. There is also the usual crowd of ecologists, hunters-and-fishermen, Trotskyists, communists, nationalists and far-rightists.

France had 16 first-round candidates in 2002, up from nine in 1995 (and a mere six in 1965). Next year's crop is sure to set a new record, even though only those who score over 5% in the first round get public finance. This multiplicity adds democratic spice and entertainment value, but for mainstream candidates it can cause serious problems—as it did most notoriously in April 2002, when the National Front's Jean-Marie Le Pen squeezed into the run-off against Jacques Chirac, ousting the Socialist candidate, Lionel Jospin.

On the right, Mr Sarkozy may face several rivals. One sovereignist member of his party, Nicolas Dupont-Aignan, says he will run outside the UMP. Bernadette Chirac has hinted that her husband may stand again; Mr Chirac promises to decide by next March. On the far right, Philippe de Villiers is running on a nationalist platform. And although Mr Le Pen is having trouble getting 500 signatures, it seems inconceivable that he will not stand. His poll rating, says TNS Sofres, is 18%—higher than it was before the 2002 election.

For Ségolène Royal, the Socialist candidate, Mr Le Pen is another threat complicating a fragmented picture. She faces competition from the mainstream left: Jean-Pierre Chevènement, an ex-minister whose 5% in 2002 helped to keep Mr Jospin out of the run-off, is standing, as is Dominique Voynet for the Greens. Farther left—a spacious place in France—a clutch of anti-liberalisers are trying to agree on a single champion. These parties matter: in 2002 Arlette Laguiller, a Trotskyist, and Olivier Besancenot, a Revolutionary Communist, took 10% between them.

The proliferation of candidates makes the first round uncertain for the two front-runners, Ms Royal and Mr Sarkozy. The polls probably overestimate their first-round scores, since few list more than a dozen candidates. One this month by Ifop gave Mr Sarkozy 30%, well above Mr Chirac's 20% in 2002, and Ms Royal 31%, almost twice what Mr Jospin took.

If Mr Sarkozy and Ms Royal suffer equally from fragmentation on left and right, that could give a decisive negotiating hand to the centre. Mr Bayrou scraped 7% in 2002, but he has been quietly gaining ground: one Ifop poll gave him 12%. The assumption is that he would back the UMP in the second round. But he has refused government jobs and been a shrill critic in parliament. Might he do a second-round deal with the Socialists? France needs to “govern beyond the left-right divide”, Mr Bayrou has said, adding that he would not close the door to anybody. With polls showing Mr Sarkozy and Ms Royal neck-and-neck in a run-off, the centre may this time matter more than the extremes.

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Germany's press

Still a man's world

Dec 7th 2006 | BERLIN
From The Economist print edition

A dearth of women editors at the top

WOMEN can also read. So might run a headline on the latest fad in the German press, which has suddenly discovered female readers, and is running articles of special interest to them. Several newspapers have also run features on women in leadership posts. This was predictable: Germany has a female chancellor, Angela Merkel. Finding women readers is good for circulation. Fewer women than men read Germany's elite papers, but covers on feminism or manliness can yield record sales.

Not enough

Women as % of German newspapers':

	readers in 2006	top editorial positions
Dailies		
Süddeutsche Zeitung	44.0	10.0
Frankfurter Allgemeine Zeitung	36.0	6.25
Handelsblatt	25.0	0
Die Welt	37.0	31.0
FT Deutschland	32.0	25.0
Weeklies		
Der Spiegel	36.0	0
Focus	36.0	16.7
Stern	48.0	16.0
Die Zeit	43.0	16.6
Wirtschaftswoche	20.5	0

Sources: Medien-Analyse ag.ma; Newspapers; *The Economist*

Yet stories of women in top jobs highlight an embarrassing contrast with, say, America: how few there are in the top media's editorial suites. As the table shows, leading German publications are run by men, and female editors are rare. (Full disclosure: a third of *The Economist*'s top editors are female.)

If the glass ceiling is in place, it is not just thanks to the old-boy network, says Maja Malik of Münster University. It is also because it is hard to reconcile a top job with children, because senior editors have trouble with mothers and because of poor child-care facilities. And German women all too often accept the negative image of working mothers by shying away from top jobs.

Tradition makes things worse. *Der Spiegel*, the leading news weekly, has always had a macho culture, which goes a long way to explaining why its only recent female section head did not stay. *Die Zeit* had the first female editor in post-war Germany, Countess Marion Dönhoff, but only its travel and letters sections are now run by women.

Some younger editors are appointing women to senior jobs. At *Capital*, a business magazine, three of four sections are run by women, as is the joint politics section of several newspapers owned by Axel Springer, a media conglomerate. Giovanni di Lorenzo, *Die Zeit*'s editor, agrees that it would send a good signal if a woman were appointed to head a key section (or as his successor).

Such appointments may not only win female readers, but also have a positive effect on journalism, rather as Ms Merkel has done on the political culture. Criticism aside, she represents a down-to-earth, fact-oriented style. More of that would do Germany's puffed-up political journalism much good.

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Charlemagne

A European values debate

Dec 7th 2006
From The Economist print edition

Why is Europe suddenly full of people talking about values and virtue?

TELETHON, a French television show, is an icon of popular entertainment, an outpouring of visual jollity and charitable fund-raising. But this year it turned into a battleground over religion and public life. A few days before the event, the Archbishop of Paris unleashed a missile: the telethon is fine, he said, except when it raises money for the destruction of human embryos (ie, for stem-cell research). On a continent where bio-ethical questions are usually debated by committees of experts behind closed doors, this blast from a religious leader against mass-market television had an unexpected whiff of America's notorious "culture wars", in which Christians and secularists man the barricades over moral matters.

Nor is this the only example of morality and religion figuring more prominently in European public life. In last month's Dutch election, the prime minister, Jan Peter Balkenende, clung to his lead partly by campaigning for "Dutch standards and values" in the face of a "moral crisis". Poland's Law and Justice party was elected on the promise of a "moral revolution"; one of its coalition partners declared that its programme was "based on the social teaching of the Catholic church". And Ségolène Royal, the French Socialists' official presidential candidate, has said that "the battle with the right in this campaign will above all be a battle of values."

None of this is entirely new, but it is unusual. European politics is normally about jobs, money and welfare. Is the politics of morality becoming more widespread in Europe (just as, ironically, it may be becoming less influential in America)?

As a general rule, "moral politics" comes to the fore in two possible ways. It may be forced into the public realm by the conviction and organisation of religious voters (for example, conservative evangelicals in America). Or politicians can willingly adopt its language, perhaps in response to genuine moral concerns—but perhaps also because political parties no longer differ significantly on economic policy and need values as a way of distinguishing themselves from their rivals.

Much of the values talk in Europe fits this last explanation. Both Ms Royal and her main centre-right rival, Nicolas Sarkozy, say they stand for a break with the past. But by talking about values, Ms Royal hopes to define her brand of change as warm and fuzzy, in contrast to the harsher Mr Sarkozy, who talks a lot about *la rupture*. Germany's Christian Democratic chancellor, Angela Merkel, ran on an economic-reform ticket. But signs of reform fatigue have led her party to sing the praises of patriotism and family values. The more European voters balk at economic reform, the more politicians yammer on about values. In these circumstances, the politics of morality can seem little more than skin deep: essentially an electoral

tactic, suitable for a moment when reform is not a plausible way to win votes. But a more interesting question is how far the first explanation for the growth of values politics in Europe—that it reflects the influence and activism of religious groups—has any validity.

God and the old continent

At first blush, it is tempting to say it has none. Europeans are much less likely than Americans to say that they believe in God. Far fewer go to church on Sundays. There is nothing that resembles America's religious right. Nor do Europeans have public groups, such as Focus on the Family, or the religious broadcasting networks that represent and inspire them. And, with due respect to the Archbishop of Paris, rather fewer Europeans get steamed up about matters that infuriate American evangelicals, such as stem-cell research, abortion or gay marriage (Spain and Belgium recently legalised this practice without much fuss). For these reasons, the debate over personal and public virtue in Europe is less specifically religious, and also less influenced by religious voters and organisations, than its equivalent in America.

Yet there are more similarities with America than one might think. For a start, there is a sizeable group of European believers with strong social and political views rooted in their faith: Muslims. They are hardly in the mainstream, but Muslim willingness to stand up and talk about politics (eg, when they denounce cartoons of Muhammad in European newspapers) may encourage, and could perhaps even provoke, other religious groups to do the same.

Some Europeans are also echoing two broader concerns that tend to animate America's religious right: alarm about the increasing secularisation of society and rejection of almost everything to do with the 1960s (especially the moral relativism that says “your truth is as valid as my truth”). In Britain, the head of the Anglican church frets that “churches [are] standing in the middle of a secular and unfriendly environment”, and the Archbishop of York complains that “Christianity is being systematically eroded from public view.” Germans are rediscovering as fashionable things that became deeply uncool in the 1960s: bourgeois values, big families, even Latin lessons.

Europeans are never going to engage in the harsh controversies of America's culture wars. They are motivated more by such things as the decline of marriage, the breakdown of the traditional family, immigration and a dire demography. For them, questions of public morality often revolve around what it means to be a decent, tolerant society. The characteristic issue is the Islamic headscarf, where debate is about balancing individual rights (to wear a veil) with social obligations (to show your face). Americans are more overtly religious, with a corresponding focus on personal morality. For them the most potent issue is abortion, which involves questions about when life begins and what counts as murder that have too often been left to the courts, not the political process. Europe's debate on politics and values is less intense and less church-dominated than America's. But it may be about more than mere electoral tactics.

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Pre-budget report

Gordon's manifesto

Dec 7th 2006
From The Economist print edition

Mr Brown makes his case to succeed Tony Blair

Reuters

Get article background

THE pre-budget report is an odd occasion in the political calendar. In opposition, Gordon Brown said he would use it to open up budget-making. In power, the chancellor of the exchequer has often found it a handy way to get bad news out of the way before the spring budget. Throughout there has been one constant: he has seen it as a political platform.

More than ever, this characterised the chancellor's tenth and almost certainly last report, which he presented on December 6th. Mr Brown exploited the event to signal how a Brown premiership—if, as expected, he succeeds Tony Blair when the prime minister steps down next year—would differ from what is on offer from the Conservatives under David Cameron.

Mr Brown's strongest card is his record in managing the economy. That reputation looks a bit shakier after the double hit to the “misery index” from this year's rises in inflation and unemployment. But he was able to make much of the economy's robust recovery in 2006, which looks set to exceed his budget forecast in March. This was sweet news after the knock to his credibility a year ago when he had to halve his growth prediction for 2005.

But Mr Brown wanted to do more than restate his credentials as a sound economic manager. The event was also an opportunity to set out his vision for a Brownite Britain. After a brief, unsuccessful attempt to lighten his image earlier this year the chancellor has reverted to type. He cast himself this week as a seasoned political heavyweight, who will prepare Britain for a future in which rising economic powers such as China and India will increasingly compete for high-skilled as well as assembly-line work.

The most striking commitment Mr Brown made was to put yet more money into education. Although the Treasury is working on a three-year spending review across government to be published in 2007, the chancellor pre-empted one of its main conclusions. He declared that capital spending on schools, colleges and universities in England would rise from £8.3 billion ($16.4 billion) in 2007-08 to £10.2 billion in 2010-11. The money will help the government achieve its longer-term ambition to renovate half of primary schools and 90% of secondary schools.

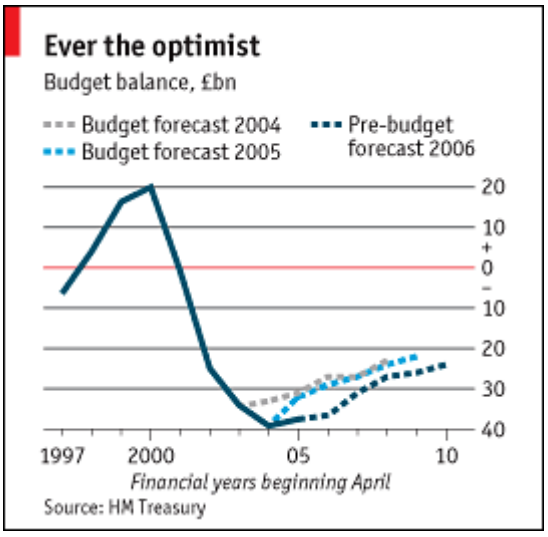
Mr Brown said the investment would support the “decision to prepare for the global economy as the most educated nation in the world.” As part of that fine-sounding objective he endorsed a review on adult skills by Lord Leitch, a businessman who wants to make Britain the brains rather than the thick man of Europe. Mr Brown's intense focus on education and training had a political goal: to present himself as the long-term investor in the nation's future in contrast to the Tories, whose instincts are still to cut taxes.

The chancellor also used the pre-budget report to get back into parts of the political game where he has not been scoring. He knows that Mr Cameron has made the running on green issues. But whereas the Tory leader can only proclaim his environmental aspirations, Mr Brown can act. He announced that air-passenger duties would double in February and outlined measures to reduce carbon emissions from homes. The chancellor also made much of his determination to modernise Britain's overstretched transport system. And he pointed the way to planning reforms under which an independent body would sanction big infrastructure developments.

Mr Brown's message lacked nothing in self-belief, though a touch of humility would not have gone amiss. After all, he has allowed green taxes to dwindle as a share of overall taxation while he has been at the Treasury (including a halving of the air-passenger duty on cheap European flights from 2001). He also bears much of the responsibility for the current mess in transport, not least in his misconceived plan for renovating London's clapped-out underground-railway network.

Another weakness is that the vision, for a prime minister if not a chancellor, may seem unremittingly dour to many voters. Mr Brown has little to say about the quality of people's lives; tellingly, he seeks to boost growth in GDP rather than GDP per person. Stripped of the verbiage, much of his speech could be seen as opening the way to more development in the crowded south-east, whose residents would be less able to object under the proposed planning reforms. That may be a hard sell, especially when so much of the tax revenue collected in the south-east ends up in Labour's Scottish and northern heartlands.

But Mr Brown's greatest potential weakness is fiscal rather than political. Despite the economy's generally good performance over the past few years, there has been an astonishing deterioration in the public finances (see chart). The budget balance has swung from substantial surpluses at the turn of the millennium to a long run of deficits, which keep on being revised up from earlier forecasts.



The Treasury now says that the government will have to borrow £37 billion in the present fiscal year, compared with its budget forecast of £36 billion (and £29 billion in Mr Brown's pre-election budget in 2005). The worsening since March may seem small but it is a setback given that the economy has grown more strongly than expected. Mr Brown has also had to raise his forecasts for the deficit in the years ahead despite tax-raising measures worth about £2 billion a year, of which half will come from the higher air-passenger duties.

Mr Brown used the pre-budget report to burnish his political credentials as a farsighted planner. But his message of long-term spending to secure Britain's future will be shot to pieces if the public finances go wrong. Mr Brown made much of supposed efficiency gains in public spending, but these lack credibility. The chancellor, who once proclaimed his prudence, has taken an imprudent risk in assuming that his budgetary sums will add up if and when he becomes prime minister.

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The Litvinenko affair

Fools' errand

Dec 7th 2006 | MOSCOW
From The Economist print edition

The diplomatic fall-out is already serious. Will it get worse?

ONE Russian way to dispose of an adversary is to hire a hit-man to do the job and then a second assassin to bump him off, thus cutting the link between the customer and the original victim. Whoever ordered the radioactive poisoning of Alexander Litvinenko, a former KGB officer who died in London on November 23rd, is likely to have been similarly cautious. That is bad news for the Scotland Yard detectives who pursued their inquiry to Moscow this week but it may be a relief for Britain's Foreign Office.

The diplomats have enough to worry about already. On December 6th small radioactive traces were found at the British Embassy in Moscow, which had been visited earlier by Andrei Lugovoi, another former KGB employee. Mr Lugovoi is known to have met Mr Litvinenko in London the day he fell ill and radiation has also been detected at other sites he visited. Mr Lugovoi protests his innocence. On December 7th the Russian police said they were launching their own criminal investigation into Mr Litvinenko's murder as well as the attempted murder of Dmitri Kovtun, an associate of Mr Lugovoi. Mr Kovtun met Mr Litvinenko with Mr Lugovoi and is also suffering from radioactive poisoning.

Blackmail; deathbed conversion to Islam; the Yukos oil company; and a football stadium: all these have been added to the swirl of rumour that surrounds Mr Litvinenko's death. The affair involves a cast of prodigiously dodgy characters in assorted countries. A newly popular version in the state-dominated media is that Mr Litvinenko may have been involved in making a “dirty bomb” for Chechen separatists.

Although the facts remain obscure, two implications are becoming clear. One is that no one can still believe that Russia's foreign relations are distinct from its internal power struggles. Londoners who thought that the Russians exiled to their city by those struggles would bring with them nothing more harmful than higher prices for Mayfair houses and football players have been disillusioned. The current Moscow tussle is for control when Vladimir Putin's second and putatively last presidential term expires in 2008. It is difficult for anyone outside the Kremlin to follow; so is the way Mr Litvinenko's death might be part of it—but it may be.

The second inference is that Russia's already strained relations with Britain are liable to deteriorate. Part of the problem is mutual incomprehension. For example, the Kremlin apparently misconstrued the police protection given to Mr Litvinenko when he was in hospital, and was angry that the accusations he supposedly made against Mr Putin were broadcast. Many in Britain, meanwhile, were unacquainted with the factional, criminalised nature of the Russian security services.

The Anglo-Russian relationship has specific problems, too, which have embittered it despite Tony Blair's cultivation of Mr Putin even before he became president. This year the British Council, a culture agency, has been subjected to aggressive Russian tax inspections. Four British diplomats were bizarrely accused of espionage on Russian television. The BBC's Russian radio service has experienced strange transmission difficulties in the past few weeks. The affable British ambassador to Moscow is being hounded by noisy members of a Kremlin-backed youth group, unchecked by the authorities.

Behind this lies Britain's refusal to extradite Akhmed Zakayev, a Chechen separatist, and Boris Berezovsky, an oligarch who first supported and then fell out with Mr Putin. Mr Berezovsky was a sponsor of Mr Litvinenko and Kremlin spin-doctors implicate him in his protégé's demise.

Russian promises of co-operation with the visiting detectives were designed to repair some of the damage done to the country's reputation. Yet, despite pressure from assorted European leaders, the co-operation may be more promised than actual.

Yuri Chaika, Russia's attorney-general, said that the British officers would be allowed to make no arrests nor question witnesses directly; extradition is more or less unthinkable. He denied that the polonium could have come from Russia, despite the radioactive traces on BA planes between London and Moscow. Top brass at the FSB, the main successor to the KGB, are likely to be inaccessible. So are some of its former officers. One, Mikhail Trepashkin, claims to have useful information. But, like Mr Litvinenko, Mr Trepashkin has investigated the apartment bombings in 1999 that helped bring Mr Putin to power. He is currently in prison in the Urals.

Still, such frustrations may not be all bad. Even if Mr Putin himself is cleared, it is hard to think of any tangible discoveries that would enhance relations between London and Moscow. British diplomats' biggest worry is not that Scotland Yard will be flummoxed, but that it might succeed.

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Nuclear weapons

Trident tested

Dec 7th 2006
From The Economist print edition

The decision to renew Trident was a foregone conclusion

PA

Just say no

LIKE a wise householder protecting his home against remote but catastrophic risks, Tony Blair says his decision on December 4th to build a new generation of submarine-based nuclear weapons was just “insurance” in a turbulent world.

The prime minister said Britain had to guard against many dangers: the risk of confrontation with any “major nuclear power” (for which read Russia); the threat of “unstable, usually deeply repressive and anti-democratic states” such as Iran and North Korea seeking nuclear bombs; the possibility that a rogue state might give nuclear technology to terrorists; and, not least, the prospect that America might not always stand by its side. Such developments were unlikely, he admitted, but not impossible. The proper response was to renew the tried-and-tested nuclear deterrent, based on Trident missiles.

This kind of insurance does not come cheap. The government reckons it will spend £15 billion ($29.6 billion)-£20 billion at current prices to build four new submarines, warheads and other infrastructure, plus £1.5 billion to replace the American-made Trident D5 missiles after 2042. Running costs will remain 5%-6% of the defence budget, or £1.6 billion-£1.9 billion a year at current prices. Savings may be possible if the fleet can be reduced to three boats.

To Mr Blair's critics this is a ridiculous amount to pay for cover against risks that, after the end of the cold war, are almost inconceivable. Moreover, they say Trident provides no protection against real dangers such as suicide-bombers.

The most vocal opponents of Trident are members of Mr Blair's own party, many of them veterans of a more left-wing era when Labour's commitment to unilateral nuclear disarmament helped consign the party to serial election defeats. To his embarrassment these days, Mr Blair himself was once a member of the Campaign for Nuclear Disarmament (CND).

Given that abandoning unilateralism was central to the “project” to make the party electable again, it was never in doubt that Mr Blair and Gordon Brown, the joint architects of New Labour, would want to keep the deterrent. Nor is securing parliamentary approval when the vote is taken in March, a couple of months before Mr Blair is expected to announce his departure date. Although any Labour rebellion may be surprisingly large, Mr Blair has the full backing of the Tory opposition.

That said, sceptics can be found in surprising places. Michael Ancram, a former Conservative deputy

leader, doubts Britain would ever use nuclear weapons against rogue states or terrorists. He wants a “more credible non-nuclear alternative”. And at least one ex-general says the money would be better spent on the overstretched conventional army. The British public, too, is less convinced of the need for nuclear deterrence than in the past. An ICM poll in July found that 51% of Britons favour replacing Trident, with 39% opposed.

Some MPs want the decision to be delayed. But the government says new submarines must be ordered in 2007 so they can be ready by 2024. It argues that the life of Vanguard-class boats can be stretched at most to 30 years, not to 44 years as the service of America's equivalent Ohio-class boats can be. Mr Blair denies charges that he is violating Britain's commitment to disarmament under the Nuclear Non-Proliferation Treaty. Britain's nuclear stockpile has shrunk over the years and will now be reduced from “fewer than 200” to “fewer than 160” warheads. Mr Blair is also scornful of the argument that phasing out Trident might persuade Iran to halt its nuclear programme.

An unspoken factor is the desire to preserve Britain as a serious player among the five permanent members of the UN Security Council (all of them nuclear powers). Leaving France as the only state in Europe with nuclear weapons is not something any British government would lightly contemplate. Britain's deterrent costs less than half the amount of France's *force de frappe*, not least because Britain relies heavily on America to provide Trident missiles and even components for its warheads. This saves money but also means that Britain can be left in the lurch when America changes its equipment.

The government says it looked at other nuclear-deterrent systems, including launching adapted Trident missiles from land or ships, or firing cruise missiles from long-range aircraft. It concluded that they were all more vulnerable to interception or pre-emptive strike than a submarine-launched system, and none was cheaper.

In the end, the choice was simple. Mr Blair said that he had tried to picture himself telling Parliament that he was giving up Britain's nuclear deterrent. “I just don't see it,” he said. Nor could anyone else.

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About sponsorship

Skills

Smarter and harder

Dec 7th 2006
From The Economist print edition

Workers need to be better-educated, and so do schoolchildren

THE figures are worrying. Nearly a third of British adults do not have a basic school-leaving certificate. More than a tenth have no qualifications at all. A fifth are functionally innumerate and nearly as many are functionally illiterate. And the workers of tomorrow aren't much better. One student in six leaves school unable to read, write and add up satisfactorily.

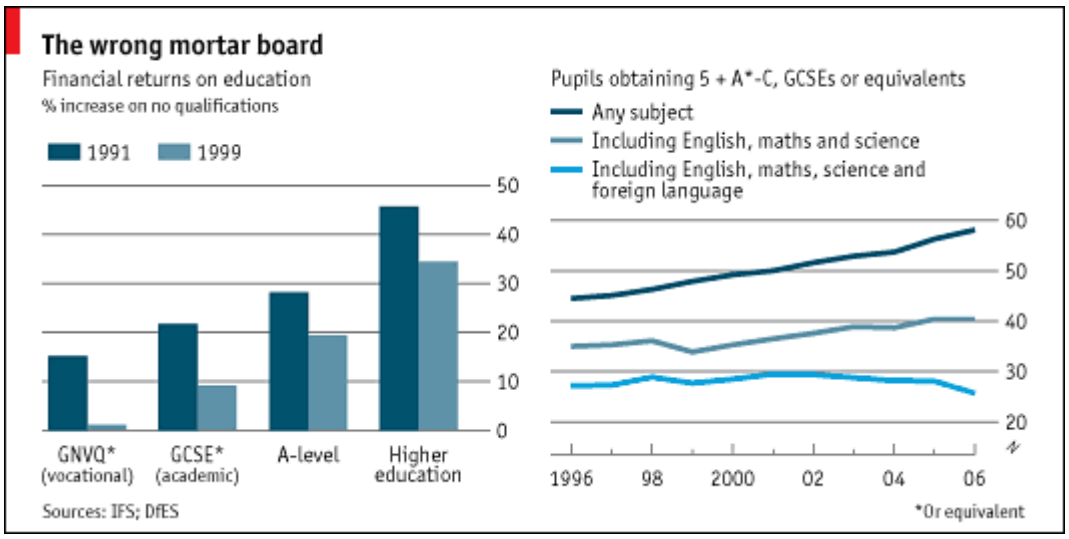
But even if schools suddenly started to turn out well-qualified young people in droves, it would be decades before Britain's workforce looked radically different. So in 2004 the chancellor, Gordon Brown, asked Lord (Sandy) Leitch, a former boss of Zurich Financial Services, to find ways of strengthening the country's skills.

Lord Leitch published his findings on December 5th, the day before the chancellor's pre-budget report. In his speech, Mr Brown accepted one of Lord Leitch's key recommendations: that the government become much more ambitious in its targets for workforce qualifications. He also said that Sir Digby Jones, a former director-general of the CBI, an employers' body, would oversee progress towards others.

If carrots don't work to get more people qualified, says Lord Leitch, there must be sticks. Bosses are to be exhorted to train their poorly-skilled employees, with Sir Digby monitoring their progress; and if exhortation fails, they should be forced. The unemployed should find it harder, perhaps even impossible, to get benefits without signing up for further training. And young people should have to stay in education or training (possibly in the workplace) until they are 18, an idea first floated on November 9th by the education minister, Alan Johnson.

Taxpayers' money is only to be spent on approved qualifications in skills that are deemed to have economic value. Exactly which courses meet that description is to be decided by national employer-led groups, working under a new body, the “Commission for Employment and Skills”.

Lord Leitch says that the reforms he advocates will make vocational training more responsive to employers' needs. In fact, the main thrust of his measures will be to strengthen central control over it. Most government money is to be channelled through an existing organisation, Train to Gain, which sends “skills brokers” into workplaces to assess training needs and to advise bosses which of them could be met by courses on the approved list. Some poorly-qualified individuals may get their training paid for directly—but only if a broker, perhaps in a job centre, approves their choices.



Subsidising the vocational qualifications that employers say they value is supposed to guide people towards training that will lead to better jobs and higher pay. But there is little evidence that this would be the case. Survey data from 1991 and 1999 show that the worthwhile returns to workers come from higher-level qualifications, rather than the sort of basic vocational ones the government is willing to endorse (see chart)—those deemed equivalent to GCSEs. More recent small-scale studies confirm these findings.

According to Alison Wolf, an academic who is writing a book about vocational education and training, one reason is that some vocational qualifications do no more than certify skills that employees already have—they are gained just to satisfy regulatory requirements. Others trap workers in low-paid fields such as child care, and some even signal to employers the holder's weak academic record.

The problem that the Leitch review was commissioned to deal with begins long before. The Tories' education spokesman, David Willetts, is exercised by figures he has recently excavated. These show that although more students are leaving school with what are officially regarded as good qualifications, this masks a fall in the numbers getting GCSEs in traditional academic subjects (see chart). Test results for primary schools, out on December 7th, show that younger children are still failing to meet government targets in English and maths.

That still leaves the problem of the poorly-skilled already in the workforce. Ms Wolf advocates letting them decide themselves what training would best improve their chances on the job market and then subsidising them directly. “Why treat them like babies?” she asks.

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Commercial property

Braced for impact

Dec 7th 2006
From The Economist print edition

Office and shop prices are soaring, but they may not do so for long

ARCHITECTURAL follies are seldom as curvaceous or sensually cambered as the “Gherkin”, the name people have given to the building that Lord (Norman) Foster designed for Swiss Re at 30 St Mary Axe, in London. Yet the fact that the pickle has never been particularly popular among tenants (it still has floors vacant, almost three years after its opening) has done little to dampen enthusiasm among potential buyers of the London landmark. This week Swiss Re said it was in talks to sell the tower, reportedly for as much as £600m ($1.2 billion). That is more than double its estimated cost of construction.

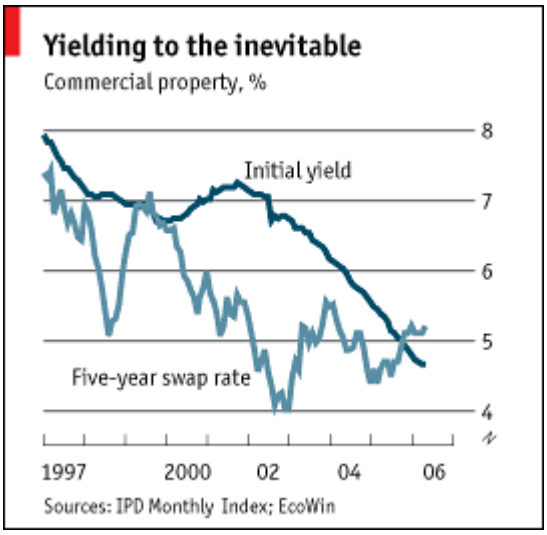
Other icons are also going for record prices. Fortress House, an ugly building that looms threateningly over the tailors of Savile Row, was sold last month for a reported £115m, and on November 30th two Irish investors agreed to buy Battersea Power Station for £400m. Overall, British commercial-property prices are rising at about 15% a year, their fastest pace since the last property boom of the late 1980s.

“There is lending on development properties that looks absolutely crazy,” says Simon Melliss, the finance director of Hammerson, a property company. Why this sudden rush of confidence? A resurgence in demand for office space goes a long way to explaining it. Investment banks in London's financial district, which sacked thousands of employees after the dotcom boom turned to bust in 2000, are once again hiring. Jones Lang Lasalle, a consultancy, reckons less than 2% of top-quality office space in London's West End is now vacant, the lowest since 2001.

Rents are surging too, with some hedge funds reportedly agreeing to pay as much as £100 per square foot for swanky offices overlooking Hanover Square. CB Richard Ellis, a property consultancy, says that rents in the area have risen by about 12% over the past 12 months, while those in the square mile of the old City financial district increased at an even faster pace.

But it is not just a shortage of space that is driving up the prices of office towers and shopping malls. A fall in interest rates and widespread disillusionment with equities has drawn investors to the steady cashflows offered by commercial property, says Peter Damesick, head of research at CB Richard Ellis. And across financial markets investors are demanding a lower reward for holding assets that are riskier than good old treasury bonds.

Yet this boom seems to have gone too long. Property prices are rising so fast that they have run away from rents and driven yields to a record low of 4.7%. That is about 0.5 percentage point below the cost of borrowing (see chart), as clear a sign of a bubble as any. And officials are starting to worry. Nigel Jenkinson, executive director for financial stability at the Bank of England, warned in a speech on November 30 of the risks to banks of a “sharp adjustment” in property prices.



The possibility of a bust worries not only property investors but also their bankers. Lending to property companies has quadrupled since 1997 and now stands at about £140 billion, which means that a sharp fall in prices could ripple through the whole financial system. Bankers are taking the warning seriously, quietly cutting back their lending to property companies and developers; during the bust of the early 1990s almost a third of quoted property companies made losses.

Is history about to repeat itself? Cranes once again litter London's skyline, though new construction has not been as reckless as at the beginning of the 1990s. The amount of new office space coming onto the market in London is set to rise sharply next year, having fallen steadily since 2003. Many of the buildings will be opening just in time for the next wave of sackings by investment banks.

CEBR, an economics consultancy, estimates that employment by financial companies in London will fall in 2008 as the world economy slows. And retail, the other mainstay of commercial property, is already showing more serious signs of strain. Consumer spending is slowing, increasing the risk of tenants going bust. A surfeit of available space has meant that nationally retail rents are already falling in real terms. Now may be a good time to start bracing for a landing.

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Sex and the city

The clip joints and the church school

Dec 7th 2006
From The Economist print edition

Soho's dives must go, say the council

MANY incongruous images greet visitors to London's Soho district, the centre of the city's booming adult-entertainment industry. Few are as surreal as this: the smart gates of a religious primary school that abuts a neon-lit townhouse, in the doorway of which dances a hostess clad in hot pants, a hat and very little else. Another such place flanks the unlucky school on the other side.

These are two of Soho's clip joints, also known as “near beers”, and they prey on the men who flock there seeking sexual gratification. A hostess in the doorway or a tout in the street will entice a punter with an unmissable offer.

The “naïve fools” go in expecting a “cut-price striptease or something more”, says Audrey Lewis, a councillor for the borough of Westminster, which includes Soho. Instead they find themselves in a dingy room paying hundreds of pounds for fizzy apple juice (the bars do not have alcohol licences)—and the striptease never happens. The customers are threatened with violence if they refuse to pay. If they have no money they are frog-marched to a cash-point.

Few pity the dupes who fall for this scam. But brawls develop outside the joints when punters turn nasty, and some frustrated folk menace women who pass by on the street. The hostesses are at risk too—a disgruntled customer murdered one two years ago.

Westminster council and the police started cracking down on such haunts after the murder. Five were closed (one has re-opened since then). Clip-joint owners risk being sent to prison for demanding money with menaces. They escape that fate because customers are loth to give statements to the police.

So the council and police have switched tack. Six weeks ago the police erected large notices about the scam outside the joints. Council officers hand out warning leaflets to men each weekend. They claim some success.

Clip joints are a tiny part of what goes on in London these days under the name of adult entertainment. Celebrities make no secret of their visits to lap-dancing clubs—one reason why these have become a mainstream night out for many. The Poppy Project, which mapped the sex industry in London in 2004, found 164 escort agencies, thousands of prostitutes, 182 chat lines and 66 lap-dancing clubs—all legal activities.

But the increasing acceptability of “raunch culture” may be attracting illegal activity too. Police claim that many women on the game in London have been trafficked, especially from eastern Europe. Many can barely speak English, so other jobs are hard to find.

In the evening, when the school is dark, the joints are jumpier. In one, a woman in a top hat and leather boots addresses men as they scurry past. A few slip inside. In the other a younger woman perches precariously on a tall stool, neon lights flashing around her. The vibrancy of Soho life attracts thousands of visitors every day, but local people feel that they are paying a high price for the offer of sex in the city.

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Bagehot

The man with the plans

Dec 7th 2006
From The Economist print edition

Gordon Brown prides himself on his long-term approach to politics. Will it work in Number 10?

ONE of the claims made for Gordon Brown by his followers is that, by contrast with Tony Blair, their man thinks and plans for the long term. Mr Blair, they suggest, is instinctive, restless, intellectually of no fixed abode. No wonder Mr Blair's “legacy” is less substantial than he would wish after a decade of power.

With Gordon, things are different. Gordon is “strategic”. Before anything big and important can be decided, the ground must first be carefully prepared. As the Brownites would have it, evidence is painstakingly gathered. It is then submitted to exhaustive, unflinching analysis, preferably by an “independent” figure appointed by Mr Brown. Only when that has been done to Mr Brown's satisfaction is it time for the appropriate conclusions to be drawn and the policies framed to match them.

At some point, Mr Brown calls for a “national debate”. But the real debate is over before it starts. With facts, figures and overwhelming force of argument, Mr Brown sallies forth to crush internal dissent and external opposition alike. The model is the report by Sir Derek Wanless commissioned by Mr Brown in 2001 to make the case for a lot more spending on a health service financed from general taxation. A great deal of the money was subsequently wasted. But at the time Labour cheered, the voters approved and the Tories cowered.

Compare that, say the Brownites, with Mr Blair's tendency to drop policy bombs from a cloudless sky on to a bewildered party and a sceptical public. Think of the muddled mess of the prime minister's schools white paper last year which ran into trouble with Labour MPs before the ink on it was dry, they say, raising their eyes heavenwards.

There could not be a better example of Mr Brown's distinctive approach than this week's pre-budget report—his last and possibly most significant. Although it is supposed to be a statement about the health of the nation's finances before the chancellor decides how much he wants to tax us in the spring, Mr Brown has always seen the PBR in broader political terms. With this year's report he takes it a stage further. The PBR should be seen as the foreword to Mr Brown's premiership—but whereas most forewords are brief, Mr Brown's was anything but.

The three Treasury-commissioned reviews that provided the backdrop to the PBR, along with the Stern review on climate change that was published just over a month ago, provide a perfect insight into the soon-to-be prime minister's *modus operandi*. Covering transport, the planning system and skills training,

each addresses an issue that has big implications for Britain's future economic competitiveness. All three reviews have been carried out under the auspices of a supposedly independent sponsor—two are prominent businessmen, the other a private-sector economist. Each is serious and thoughtful, and each is designed to do a specific job for Mr Brown.

But from Mr Brown's point of view, the sum is even greater than the parts. Together with Stern, the reviews reveal the man who commissioned them as a leader with the courage and the experience to tackle great challenges. No Brown speech is complete without a reference to the hordes of Chinese and Indian graduates queuing up to gobble Britain's economic lunch. The sub-text is that, although Mr Brown welcomes the opportunities of a globalised economy, he uniquely understands its threats and the steps Britain must take to respond to them. Helpfully for Mr Brown, these are steps that have to be taken over many years. The implication is that there is vital work not just for a fourth-term Labour government led by Mr Brown, but for a fifth and even—why not?—a sixth. After all, Mr Brown always thinks long.

There is, however, another and less flattering interpretation of Mr Brown's addiction to “independent” reviews—the Treasury website lists about 30 commissioned since 1999. He procrastinates, crippled by caution. Until now, for example, it's fair to say that the fuel protests of 2000 influenced Mr Brown's attitude to green taxes rather more than mounting evidence of climate change. Stern gives him the cover he needs to do the right thing and counter David Cameron's claim to care more for the environment than the chancellor. But it has been a long wait.

Similarly, for years the government has known that the only answer to gridlocked traffic was road pricing to make more efficient use of the existing network and to raise money for new capacity. But, perhaps mindful of his reputation for coming up with wheezes to separate the voters from their cash, Mr Brown would rather the case were made by an “independent” expert.

Likewise, an overhaul of Britain's inefficient planning rules is long overdue, but nobody in government, certainly not Mr Brown, was keen to lead a death-or-glory charge over a subject that raises passions like few others. Step forward, the “independent” Kate Barker to test the political water. Even Wanless was an indication of Mr Brown's timidity. He didn't feel confident to make the case for higher taxes on his own.

A question of temperament

Mr Brown thinks that Mr Blair is incapable of sticking to the process needed to chart a consistent course and is too easily seduced by passing policy fashions. But Mr Blair frets that Mr Brown will be cruelly exposed by his ponderousness and caution when he becomes prime minister. As chancellor, Mr Brown has been able to run his life according to a calendar of largely set-piece occasions, such as this week's PBR. Events, those troubling things that tend to dominate the lives of prime ministers, have rarely barged into his ordered existence.

Once safely installed in Number 10, Mr Brown will have to take big decisions on a daily basis. Frequently, the information he will have to go on will be sketchy and the consequences of what he decides uncertain. Temperamentally, Mr Brown may find it difficult to cope.

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America and malaria

Finally clearing the air

Dec 7th 2006 | NEW YORK
From The Economist print edition

AP

An American-led drive against one of the world's most dreadful diseases could learn from past mistakes

Get article background

“THE BELIEF is growing on me that the disease is communicated by the bite of the mosquito.” That insight won Ronald Ross, a British doctor working in India, a Nobel prize. Defying age-old notions that malaria was caused, as its name suggests, by foul air, he showed how it really spread.

Given that more than a century has passed since that discovery, and huge expertise on how to fight malaria has been accumulated, it seems a disgrace that in one area of the world, sub-Saharan Africa, the incidence of the disease has in recent years been rising; and that it claims over 1m victims a year, mostly children.

That is the backdrop to a summit on malaria to be held at the White House on December 14th. In a show of George Bush's belief in using the private sector (its networks and communication skills as well as its money) and the kindness of small donors as well as big ones, the meeting will involve companies, charities and “faith-based” groups, plus politicians and health experts from all over the world.

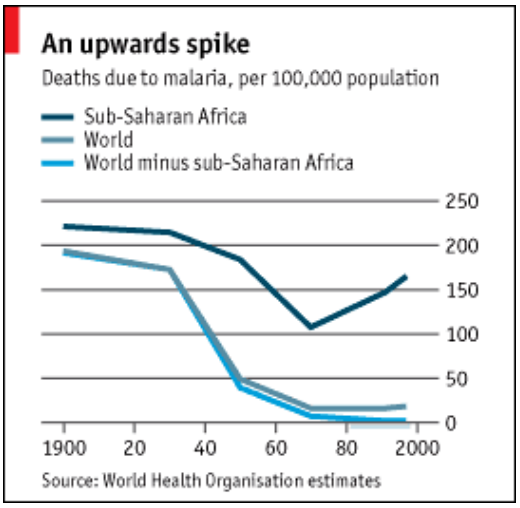
Timothy Ziemer, Mr Bush's chief malaria adviser, insists the event will be more than a photo opportunity. The White House, he notes, has a record of tackling this problem with funds as well as words. In June 2005, Mr Bush launched a “President's Malaria Initiative” (PMI), offering $1.2 billion of new money to the hardest-hit African countries. Laura Bush, the president's wife, held another malaria meeting this June to expand the programme. The summit agenda reflects some recent changes in thinking about malaria, and global health generally: there is a new stress on promoting awareness of the problem (among people in the rich world who will never suffer or see the disease) and on tough accountability for aid recipients.

Not before time. The history of malaria policy in the past few years has produced an alphabet soup of over-optimistic slogans and titles, such as Roll Back Malaria, a campaign launched in 1998.

Fancy names are still being dreamed up, but in a more sober spirit. “Malaria No More”, a coalition of agencies including the American Red Cross, UNICEF and the Global Business Coalition on HIV/AIDS, TB and Malaria, plans a campaign to urge Americans to make donations of $10 to help buy and distribute

nets carrying a durable pesticide. The aim is not just to get money, says the coalition's John Tedstrom: it will be the “first effort in this country to rally civil society to fight a disease that doesn't affect America.”

Ten-dollar gifts may seem like drops in the ocean. But Regina Rabinovich of the Gates Foundation, one of the largest philanthropic agencies in the world, says small private gifts complement official aid in multiple ways: when simple folk empty their pockets, that bolsters political support for government help.



Another reason for hope, perhaps, is the spirit of contrition among the agencies that have been fighting malaria for years. Arata Kochi, head of the World Health Organisation's malaria programme, has owned up to its past shortcomings.

“It's the WHO's fault we failed on malaria,” says Dr Kochi. “We didn't show technical leadership, and that vacuum created a policy mess.” His agency did not move fast enough to stop the use of chloroquine (an older drug that no longer works in many countries, because of drug resistance), he says, or to promote the effective but pricier combination of drugs using artemisinin, made from Chinese herbs. He also feels his agency failed to challenge green opposition to DDT, a once-controversial chemical that works safely against malaria when sprayed inside dwellings.

Dr Kochi is also spearheading a global drive for more accountability, with White House support. All the countries getting funds through Mr Bush's PMI must agree to measure aid effectiveness. That might seem obvious—but it rarely happens in practice. Roger Bate of the American Enterprise Institute, a conservative think-tank, points reproachfully at Roll Back Malaria (a grand coalition of the UN agencies, national governments and just about everybody else involved with the disease). When that programme was launched eight years ago, it promised to halve the number of malaria deaths by 2010—but malaria data are so vague that nobody knows the baseline.

Awareness and accountability are fine, but the best reason for cheer is that there is finally some action, some of it from newly energised agencies and governments. This month, the Ethiopian government, with help from the Global Fund, UNICEF and other agencies, is distributing 20m bed nets across the sprawling country, the largest such effort ever mounted.

The World Bank, as part of its campaign against poverty's causes and effects (see article), vowed a few years ago to boost malaria funding, but the money proved to be a trickle. That may change. In the past 15 months, it has launched ten projects, and next week the bank's board will consider its largest malaria initiative ever: a $180m effort in Nigeria, where perhaps a fifth of all malaria deaths occur.

Money by itself is not enough. Even modern technologies are little use unless they reach the neediest. Mark Grabowsky of the Global Fund thinks a surge of malaria funding may be causing “growing pains” as underdeveloped medical systems struggle to absorb the cash. But the distribution of drugs and equipment is an area where private firms could help. Steven Phillips of Exxon Mobil (a board member of Roll Back Malaria) notes that his oil firm makes the pesticide used in bed nets woven in Tanzania and its filling stations could hand them out. And even in countries where state-run clinics are thin on the ground, asks the GBC's Mr Tedstrom, is there anywhere in the world that lacks a sales point for Coca-Cola?

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Women with attention deficit disorder

Really desperate housewives

Dec 7th 2006
From The Economist print edition

Why the number of women who find it hard to focus seems to be rising

DON'T be surprised if it turns into a big new feminist cause all over the world: the plight of women who say they have trouble focusing their attention—and can't get anybody's else's attention for long enough to deal with their problem.

One believer in the cause is Sari Solden, an American writer on (and sufferer from) attention deficit hyperactivity disorder: a term familiar to parents in the English-speaking world, where ADHD (or sometimes just ADD) has been diagnosed in millions of children who cannot stay still, or cannot concentrate for long, or cannot do either. America's market in ADHD drugs—mostly one called Ritalin—is worth over $3 billion a year, and kids account for most of it. But Ms Solden sees a “hidden epidemic” among adult females.

With the children's version of the disorder, much debate is sparked by sceptics who say it is diagnosed too often. Some say doctors are too quick to offer chemical solutions for youngsters who might once have been called boisterous or high-spirited. A middle view—held by Sam Goldstein, a leading American pundit—is that the disorder exists, but that people under stress (including mothers going out to work) may be too quick to say they have it.

With respect to adult women, Ms Solden argues the opposite: millions of silent sufferers need help but cannot get any. She cites the response to her book, “Women with Attention Deficit Disorder”—whose title is snappier in Japanese (literally, “Women Who Can't Put Things in Order”) or German (“Princess of Chaos”). She reports strong interest in the Middle East and China, and across Europe.

Support clubs for female sufferers have emerged all over the world; in Australia, there is an e-community of afflicted souls called ADDventurous Women. Even in countries where the syndrome is recognised among children, it is hard for women to be treated for ADHD. In Britain, where children take Ritalin at almost American rates, two National Health Service (NHS) clinics struggle to cope with a growing queue of stricken grown-ups. Caroline Knight, a British sufferer who has battled to get help for ADHD, says it has blighted her life and job prospects. Drugs helped: “I could stand in a queue without getting impatient and watch the news without getting distracted.” But many NHS doctors will not give adults Ritalin.

Judie Gade, head of the Australian group, says its members find it all but impossible to obtain ADHD drugs; many doctors, not believing in a specific disorder, simply offer anti-depressants. Irish Catholic women face scepticism from priests, says Dianne Zaccheo, an ADHD therapist. In Hong Kong, says Jadis Blurton, a psychologist, the number of women coming forward, especially expatriates, has grown in the past five years but they have a battle getting local doctors to treat them.

Nor is the whole thing just rich-world hypochondria, says Paulo Mattos, who runs an ADHD study group at the Federal University of Rio de Janeiro. The proportion of Brazilian children with signs of the disorder, using an American definition, is about 5%—comparable with the United States. Among adults, he says, it is between 1.5% and 3.5%. While women suffer as much as men, they are treated less. Mr Mattos suspects a “gender gap” at work: Brazilian women are less likely to do hard jobs so their problems go undetected.

Most women in Brazil lack one option that American ones often have—looting their kids' medicine. In a 2004 episode of the American television series “Desperate Housewives”, a harassed Lynette Scavo raided the bathroom and downed her son's Ritalin, in a bid to cope with being a “supermom”. A year later, a survey showed Ritalin use rising fast among all American adults—especially women. While prescriptions for all 20-44-year-olds had grown by 139% over five years, the rate for women had jumped by 164%. Is it life imitating art, or the subliminal power of the screen?

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The World Bank

Hungry like the wolf

Dec 7th 2006
From The Economist print edition

The World Bank's latest begging round looks tougher than usual

THERE are not many emaciated cattle or dried-up wells in London, Strasbourg, Brussels or Melbourne. But all those cities have enjoyed visits in the past month from Paul Wolfowitz, president of the World Bank. Since assuming his post 18 months ago, Mr Wolfowitz has toured many poor countries (including Ethiopia, Tanzania, Chad, Benin, Sierra Leone and Liberia in July alone) to see how the bank's money is being spent and hear requests for more. But every three years, the tables are turned. The bank goes cap in hand to rich countries and tries to replenish its coffers.

This haggling, which starts in Paris in March and will not end before December 2007, is always a fraught business. But this time, concern seems greater than usual; groundwork for the begathon has already begun. Robin Cleveland, an adviser to the bank's president and, like him, a veteran of the Pentagon, is leading its effort to drum up “good stories” about the bang it gets for its billions. The aim is to help her boss on his Pauline mission to evangelise the doubting chancelleries of Europe and beyond.

There are signs the institution is reassuring some sceptics. Last month, it survived a “mid-term review” of its work in the 18 months since the last round of donations were agreed in April 2005. This week, it got a vote of confidence from Britain and Sweden. Both countries had pledged an extra slug of money—respectively £50m ($99m) and SKr250m ($37m)—in the last funding round, but only on certain terms. The British want the bank to stop putting its financial muscle behind economic reforms, such as privatisation or trade liberalisation, in countries that do not really want them. This week both donors said they had seen enough progress to release the money—although Britain added that the issues close to its heart would remain “a central consideration” in the replenishment talks next year.

The bank will feel encouraged. It also expects to benefit from the fresh enthusiasm for aid stirred up last year in the run-up to the Group of Eight summit in Gleneagles. In a recent issue of *Time* magazine's Europe edition Mr Wolfowitz paid extravagant tribute to Bono and Bob Geldof, two “peerless” aid campaigners. But the bank faces stiffer competition for aid dollars than ever before. There are over 150 multilateral bodies—from the African Development Bank to the United Nations Children's Fund—and a gaggle of funds, facilities and initiatives dedicated to specific causes, such as the President's Malaria Initiative (see article), launched by George Bush.

World Bankers insist that a big, all-purpose aid pot is well worth having—and expanding. The problems of development grow in dense thickets, they argue; one thing is tangled up with another. Getting young women into school cuts the chances of their offspring dying in childhood, for example; bringing electricity to villages can do as much for the population's health as erecting a clinic. Many such stories appear in the annual report on development effectiveness, published this week by the bank's Independent Evaluation Group. But the report says the bank is not doing enough to spot these knock-on effects and exploit them.

The Gleneagles summit has left a second, darker legacy for the bank: debt relief. In the past, money would trickle back into its aid pot as poor borrowers repaid their loans. But at the urging of the G8, the bank has written off many of the debts it is owed. One of Mr Wolfowitz's early triumphs was to persuade donor countries to compensate the bank for the money it would no longer collect from its debtors. He was also assured that this compensation would come on top of, not instead of, their other donations to his institution. Next year will be the first real test of this commitment. Already, some donors have shown “a lackadaisical attitude” towards relieving the costs of debt relief, as one of the bank's executive directors puts it. And despite promises to the contrary, cash-strapped donors may feel less generous in the future, when they are already picking up the tab for past bad loans.

One final new factor in this funding round is Mr Wolfowitz's campaign against corruption. His aims are

widely shared, but some donors find his methods haphazard. At the bank's annual meetings in September, his overseers stressed the need for “predictability, transparency, and consistent and equal treatment across member countries”. They will be reluctant to proffer lots more money until they are sure it will be handed out in that spirit.

As it tries to square its crusade against corruption with its bid for more cash, the bank faces an awkward irony: some of its more successful efforts against graft need not involve much money. Often, they succeed by encouraging governments to do less—removing red tape, for example—not by financing them to do more. And on other occasions, the cause is best served by withholding money which may be purloined by greedy officials. Fighting corruption is worthwhile, painstaking and slow. But it doesn't have to be expensive.

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Intellectual property

New ideas about new ideas

Dec 7th 2006
From The Economist print edition

Some drops of sweet reason in a battle over copyright and patent reform

MODERN economies are not built with capital or labour as much as by ideas. Nearly half America's gross domestic product is based on intellectual property, one estimate found. Japan has called the husbanding of such property a national priority. A raft of United Nations agencies, covering health or development or trade, are squabbling over how best to enforce patents and copyrights while also promoting innovation.

The latest contribution to this feverish debate is a report released this week by Britain's Treasury, called the “Gowers Review of Intellectual Property”. It follows a year-long study led by Andrew Gowers, an ex-editor of the *Financial Times*. Its aim was to take a rational, evidence-based view of intellectual property and ways to safeguard it. To the dismay of some and the delight of others, it calls for a balance between the interests of creators and the public.

This idea of balance will anger the entertainment industry, which has tried to win over politicians with some siren songs. For example, the music company EMI enlisted ageing crooners to back its campaign for the length of copyright for sound recordings in Europe to be extended from 50 to 95 years, following America's lead. The study rejects this. It wants much firmer enforcement of the rules, but also says copying material for private use should be made easier.

The report urges a reform of the patent system. Going to court to uphold a patent costs a company a minimum of $1.5m; that may oblige innocent firms to pay to settle and prevents infringed parties from seeking redress. A system to protect intellectual property is meaningless if only the rich can use (or abuse) it.

The study provided a chance for all sides in the debate to lay out their cases—so it is affecting the climate of opinion all over the world. In Australia this week, a Copyright Amendment Bill passed both houses of parliament, but only after some draconian features—like stiff fines for unintentional infringement—were removed at the last minute.

In many places there is a problem over intellectual property because of an imbalance of power between copyright and patent holders on the one hand, and the public on the other. The new review, by sifting evidence rather than taking the lobbyists' guinea, seems to have pushed the global debate forward.

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Correction: Hong Kong couples

Dec 7th 2006
From The Economist print edition

A table in last week's issue suggested that Hong Kong allows civil unions, with limited rights, between gay couples. Although Hong Kong is reviewing its laws in this area, it does not now allow any civil partnership between gays. This error has been corrected online. Sorry for the mistake.

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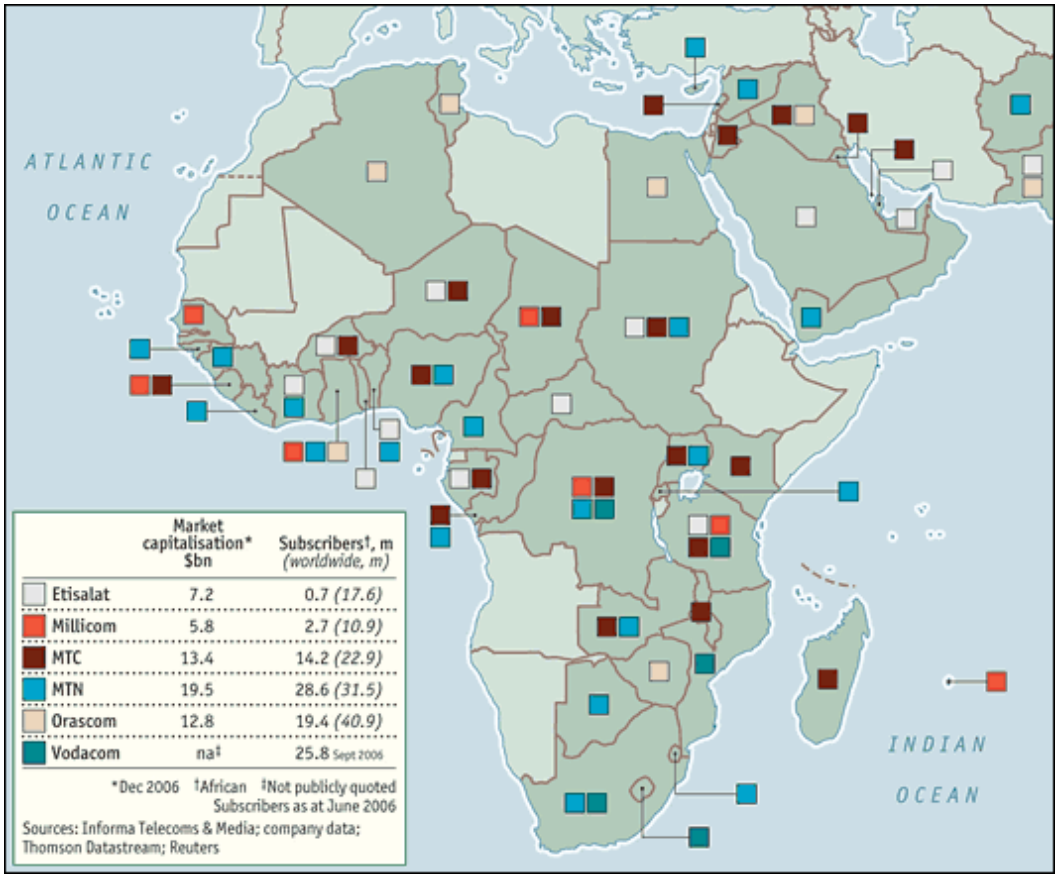
Mobile telecoms

Out of Africa

Dec 7th 2006 | NAIROBI AND LONDON
From The Economist print edition

A new kind of telecoms operator is evolving in Africa and the Middle East



THAT mobile phones are transforming economic and social life in Africa is now widely understood. Less well known are the companies that are leading the charge. Following a flurry of deals over the past 18 months, five African and Middle Eastern operators are now vying for supremacy. These regional powerhouses have worked out how to earn princely sums in the world's poorest places. So far they have mostly been too busy signing up new subscribers to compete vigorously with each other. But that is now starting to change, and the industry is preparing for a round of consolidation as the operators start to attack each other's markets.

The five big operators are MTN of South Africa, MTC of Kuwait, Egypt's Orascom, Etisalat of the United Arab Emirates (UAE) and Vodacom, an Anglo-South African firm. John Tiefel, a partner at McKinsey, predicts that consolidation will result in three or four large operators spanning Africa and the Middle East, with a sprinkling of national firms. “All the operators have a very similar vision: to become meaningful players in all these markets,” says Phuthuma Nhleko, the boss of MTN Group in South Africa, which has operations in 21 countries across the region.

The appeal is obvious. “There is high growth, high profitability, high cashflow generation and still many years of growth ahead of us,” says Marc Beuls, president of Millicom International Cellular, which does business in 17 developing countries under the name Tigo. Mobile telephony is now a $25 billion industry across Africa and the Middle East. Subscriber growth in the region will be 40% this year and exceeds 100% in some countries. Revenue is increasing by 20-50% annually and margins are around 40%. In

many countries mobile operators are among the biggest companies and largest taxpayers. And the market is still young: fewer than 15% of Africans have mobile phones.

The companies benefiting from this growth are mainly home-grown. As Western operators either stayed away or pulled out after the telecoms crash of 2001, African firms raced to expand. More recently Middle Eastern operators have moved into the market on a tide of petrodollars. As for European firms, only Millicom of Luxembourg and Vodacom, a joint-venture between Vodafone of Britain and Telkom of South Africa, have much of a presence. “We have more appetite for risky countries and go in there and run very profitable businesses,” says Tito Alai of Celtel, part of the MTC Group.

MTN is the largest operator in the region as a result of its $5.5 billion acquisition in May of Investcom, a company with stakes in several Middle Eastern operators. MTN's boss, Mr Nhleko, says the firm will focus on Africa and the Middle East, where there is plenty of room for growth. MTC expanded in the other direction, from the Middle East into Africa. The Kuwaiti firm bought Celtel, which runs networks mainly in east Africa, for $3.4 billion in 2005. It has since purchased a stake in a Nigerian operator and arranged a $4 billion credit facility to pay for further expansion.

Until last month Vodacom was prevented from expanding north of the equator by a pact between its British and South African parents. But the deal has now been scrapped, so Vodacom is on the move. This week its chief operating officer, Pieter Uys, said it was targeting Algeria, Nigeria, Ghana and Angola. Etisalat, the UAE's partially state-owned operator, bought a 50% stake in Atlantique Telecom, which operates throughout west Africa, in April 2005. It has also expanded into Pakistan and Afghanistan, and in July it paid $2.8 billion for Egypt's third mobile licence—a staggering sum that only a year ago would have purchased an entire regional operator.

As others pile into Africa, Orascom has been pulling out, having sold its stakes in a dozen African operators. It is now targeting “highly populated, under-penetrated markets,” says Ossama Bessada, a senior executive at the Egyptian firm. It has operations in the Middle East, Pakistan and Bangladesh, and plans to bid for a licence in Saudi Arabia next year. Naguib Sawiris, Orascom's chief executive, also owns Weather Investments, which paid €12.1 billion last year to take control of Wind, Italy's third-largest mobile operator.

Meanwhile, operators in Saudi Arabia, Qatar and Oman are hunting around for acquisitions too. Targets include Millicom, which was almost bought by China Mobile this year, Econet Wireless of South Africa, and the 50 or so independent mobile operators scattered throughout the region.

Some firms are even looking north, to southern and eastern Europe, for acquisitions. “They are getting very brave now, and they're looking beyond their traditional markets,” says Devine Kofiloto, an analyst at Informa Telecoms & Media. Middle Eastern operators were among the bidders for Mobi63, a Serbian operator, earlier this year. Etisalat narrowly lost a fight for Turkey's Telsim to Vodafone in 2005. And Mr Sawiris has expressed interest in a Greek operator.

The arrival of Middle Eastern and African operators, with their innovative, low-cost business models, could put pressure on European operators. Celtel's One Network, for example, eliminates roaming charges for customers travelling between the adjacent countries of Kenya, Tanzania and Uganda. Subscribers can add airtime in different currencies and carry it across borders. Celtel has, in effect, created a unified market of the kind that regulators can only dream about in Europe. African operators are also pioneering per-second billing and mobile-phone banking.

The rise of these regional operators brings great joy to Mo Ibrahim, the founder of Celtel, who is regarded as one of the fathers of Africa's mobile industry. He has created a $100m venture fund for African entrepreneurs and a foundation that offers a $5m prize to African leaders who promote good governance. As pan-African operators emerge, they are not just providing telecoms services across the continent—they are a force for change within it.

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India's telecoms boom

Talk is cheap

Dec 7th 2006 | DELHI
From The Economist print edition

India leads the world in mobile-phone subscriber growth

WITH 6.6m new subscribers a month, India is in the grip of an unprecedented mobile-phone boom. Figures released in September showed that India had overtaken China in new subscribers per month for the first time. India still lags behind China in total subscribers, with a mere 136m (up from 75m a year ago), compared with China's 449m. But India's government is confident that this gap can be quickly closed, and that it will meet its target of 500m phone subscribers by 2010.

The boom has become the source of much national pride. It is arguably a more widely celebrated example of the "New India" than the high-tech offshoring industry centred on Bangalore, because poorer Indians are participating in it too. Industry bosses are quick to point out that the spread of mobile phones is bringing labourers, farmers and fishermen into the economic mainstream. "An unemployed person with a phone suddenly feels part of the nation," says one top executive.

The mood change is striking because, not long ago, the phone system was weighed down by the stifling bureaucracy that was India's "Licence Raj". The introduction of mobile phones was initially hampered by overly complex regulation. As a result, India had one of the world's lowest phone penetration rates at the start of this decade—all the more shocking given the country's lively democracy and its people's love of conversation. But the government eventually cleaned up the mess, and its most significant contribution to the ensuing boom has been to keep out of the way.

Duties and tariffs on telephone services have been rationalised, and the government has also eased restrictions on foreigners. In October AT&T became the first foreign telecoms firm to win a licence to operate freely in India, following a cut in licence fees and a legal change that allows foreign firms to own up to 74% of their Indian subsidiaries. Britain's BT is applying to offer domestic and international long-distance services in India, from which it expects revenues of $250m by 2009.

Foreign capital will be essential if the industry is to build the infrastructure needed for continued growth, especially as the focus shifts from urban to rural subscribers, without whom the government cannot reach its 500m target. It will also be necessary to free up radio spectrum now used for military and satellite communications. The government has promised to overhaul its spectrum policy by the end of next year, but it is expected to release some spectrum much sooner than that for advanced "third-generation" services—motivated in part by a desire to launch them before China does.

But fancy 3G services are a world away from India's boom today, which is all about basic services and incredibly low prices. Indian firms claim they offer the cheapest mobile services in the world, with outgoing calls for as little as $0.01 a minute and second-hand phones for $15 or less. But cheap does not mean unprofitable, and the industry leaders, including Reliance Communications, Bharti's Airtel and the telecoms arm of Tata, are believed to earn a pre-tax profit margin of around 40% before interest and depreciation.

Bharti, in particular, is attracting attention from telecoms firms worldwide because of its innovative business model. It has outsourced most of its operations to IBM, Ericsson and Nokia and spends nothing on research and development, focusing instead on its core skills of marketing and customer management. Sunil Mittal, Bharti's boss, is keen to find similarly innovative ways to serve poorer consumers in other fields, ranging from health care and education to retailing—hence his recent deal to bring Wal-Mart to India. Where telephones lead, development follows.

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Health care in America

Bit by bit

Dec 7th 2006 | NEW YORK
From The Economist print edition

Wal-Mart and other big firms are pushing for electronic medical records

THE paperless hospital has long been a goal of health-care reformers. Plenty of studies have shown that America's bureaucratic approach to handling patient records inflates costs, wastes time and increases medical errors. A number of digital initiatives have even popped up in places like Indianapolis and Massachusetts, but these are tiny ripples in the ocean of medical data. A national, fully interoperable system of electronic medical records has remained a distant dream.

But that may be about to change. On December 6th Wal-Mart announced plans to launch Dossia, an online patient-information service, next year. The retail giant was joined by other big firms including Intel and BP's American division, representing some 2.5m employees, dependants and pensioners in total. Curiously, they are relying not on some Silicon Valley powerhouse but on the Omnimedix Institute, a non-profit firm based in Oregon, to build and run the new system.

Separately, Google has been making noises about entering this market, too. “Today it is much too difficult to get access to one's health records...our industry should help solve this problem,” wrote Adam Bosworth, who is developing Google's health-sector strategy, on his firm's blog last week. When Wal-Mart, Intel and Google start sniffing around a market, the time has probably come to take it seriously.

Why are all these big firms interested in injecting a dose of computing into health care? In part, because it offers the prospect of a big new market. Pitney Bowes, a member of the Dossia consortium, hopes to sell more software; Intel hopes to sell more chips. And Google may be hoping to grab a slice of the pharmaceutical industry's huge marketing budget, via online advertisements tied into medical systems.

A narrow focus on sales does not explain everything, however. Electronic medical records will not increase sales at BP or Wal-Mart. Why are these big firms joining hands to embrace this untested and previously unsuccessful idea? BP's Pat Miller says that many of her firm's employees move frequently, so portable records would be more convenient for them. Wal-Mart's Linda Dillman says her firm likes the independent and non-profit status of Dossia. “The data will come out of the commercial space and become the property of the individual,” she says.

Those are laudable goals, but some believe the main motivation for this new effort is simpler: containing costs. “Employers are completely frustrated by the health industry's slow adoption of information technology,” explains David Matheson of the Boston Consulting Group, a management consultancy. The Dossia group acknowledges as much, pointing out that “with employers paying almost half of all US healthcare costs, Dossia will be an important component in making the health-care system more efficient and effective, eliminating waste and duplication.”

Previous efforts have failed, but could Wal-Mart's rallying cry lead to an electronic revolution in health care? Perhaps. After all, the retailer's embrace of RFID wireless-barcode technology forced reluctant suppliers to adopt it. However, Mr Matheson points out that America's health-care system is fragmented and huge—far bigger even than Wal-Mart—which could limit the firm's ability to force change. Durjoy Bhattacharjya, the founder of medicalrecords.com, a now-defunct start-up, adds that worries about such things as privacy and security could also scupper the initiative. “Previous failures were rarely about technology,” he says.

Perhaps that sober reality explains the uncharacteristically conciliatory stance struck by Wal-Mart this week. Ms Dillman says she hopes that if Google enters the market, it will compete “on the software and functionality of the front end” and not over control of the patient data. And she rejects the notion that there might be a “Wal-Mart effect” as there was with RFID. “We cannot fix it on our own—we want to be a catalyst and a convenor,” she says.

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Pharmaceuticals

Bitter pill

Dec 7th 2006 | GROTON, CONNECTICUT
From The Economist print edition

The failure of a future blockbuster drug squeezes Pfizer

THIS was supposed to be a good week for Jeffrey Kindler, who took over as the boss of Pfizer, a drugs giant, in July. He has repeatedly promised to shake things up at the famously hidebound and bureaucratic firm, and it looked as though he was making good on his promise. First he announced plans to sack a fifth of the firm's sales force. Then on November 30th he hosted an open day for analysts at the firm's research laboratories in leafy Groton, Connecticut, a short drive from the firm's headquarters in New York.

At his instigation, Pfizer's secretive boffins unveiled details of the firm's drugs pipeline, disclosing information for the first time on more than half of its 30 research programmes. Financial analysts, who helped to push Mr Kindler's arrogant and aloof predecessor from his post, cheered the new openness.

But then things started to go awry. The new boss pointed to torcetrapib, a cholesterol drug in late-stage trials, and gushed that it could “redefine the way we treat the world's number-one killer—cardiovascular disease.” Here was Pfizer's best chance of making up for the drop in profits when Lipitor, today's blockbuster cholesterol drug, goes off-patent in a few years.

Two days after the Groton event came the bombshell. Pfizer suddenly shut down the trial of torcetrapib and announced that the drug would not make it to market. More patients on the new drug were dying than in the control group taking Lipitor. When markets reopened the news wiped some $20 billion off Pfizer's market capitalisation.

Bad news—but there may yet be a silver lining. Mr Kindler is due to unveil his new strategy for the firm in late January. There had been speculation that the new boss would not be able to win over the old lags to his vision. But torcetrapib's failure could be the bitter medicine that Pfizer's entrenched bureaucracy needs to make it accept change.

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Red tape in Europe

Regulatory over-reach?

Dec 7th 2006
From The Economist print edition

Improving regulation is a tortuous process, as new chemical rules show

THE European Union has got the regulation blues. Günter Verheugen, the EU commissioner responsible for enterprise and industry, recently estimated that European firms spend €600 billion a year ($800 billion) on administration to comply with EU regulations—almost twice the previous estimate. A poll of 1,000 British bosses found that 54% thought the cost of red tape outweighed the benefits of the single market. So the imminent arrival of one of the EU's most ambitious pieces of regulation, the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), seems unlikely to lift the mood. Next week the European Parliament will vote on the final package, which is due to come into force in April 2007.

Even by the EU's standards, REACH is exceptional. The original proposal was over 1,200 pages long. It will require companies to register their use of 30,000 chemicals, including 1,500 substances of high concern that may be linked to reproductive diseases and cancers. Because of the ubiquity of man-made chemicals, the proposals affect an unusually large number of businesses in Europe and beyond. Furthermore, REACH will come into force just as the Commission is making a big song and dance about its “Better Regulation” project, a plan to repeal or rewrite over 200 pieces of legislation between 2005 and 2008. So much for the EU's grand plans to cut red tape, you might think.

Even if they are fed up with regulation in general, few businesses in Europe disagree with the proposals' intentions. This is partly because they have invested years in REACH, which began in 2001. More importantly, the new rules will be better than the old ones. Replacing 40 different directives with one broad band of red tape should make chemical registration faster and less cumbersome, says Franco Bisegna of the European Chemical Industry Council, a lobby group. Retailers also think that the costs on business are a price worth paying: Alisdair Gray of the British Retail Consortium, which represents British retailers such as Boots, Marks & Spencer and Tesco, believes the regulation will be “money well spent if it builds trust in chemicals”. He thinks the proposals have been tested more rigorously than many of the missives that emanate from Brussels.

The question is not whether REACH should exist at all, but how best to strike a balance between regulation and competitiveness. The final deal, which was cooked up last week, bears the unmistakable flavour of a political fudge. Environmental groups are far from happy. They think everyone should limit their exposure to chemicals, no matter how small the amounts. WWF, a conservation group, advises people to “cut their risk” of “chemical contamination” by avoiding dry cleaning, tinned food and synthetic perfumes. WWF had argued that REACH should oblige industry to find alternatives to hazardous chemicals, even when firms can show that they are being used safely.

But European legislators took a softer line. Instead, they decided that businesses should gain permission to use the most dangerous chemicals only if they present plans for finding substitutes. Mr Bisegna thinks this is a “disappointing compromise” since it will put a heavier burden on industry. But the final deal is far less demanding than the Commission's original proposal of 2003.

And REACH even provides some supporting evidence in favour of the “Better Regulation” project, which promises to be more rigorous about the costs and benefits of regulation. The benefits to health were estimated in 2003 at €50 billion over the next 30 years, and the costs were put at €2.8 billion-5.2 billion over the next 11 years. The latest calculations suggest that under this new compromise, the benefits and costs are lower—but that there is still an overall benefit.

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Airbus

A long haul to recovery

Dec 7th 2006
From The Economist print edition

Airbus launches a new plane, but still has all its old problems

AFP

Gallois has a long runway ahead of him

FOR most of the year the news from Toulouse, headquarters of Airbus, ranged from bad to worse. So it was with visible relief that Louis Gallois, joint chief executive of the European Aeronautic Defence and Space company (EADS) and the chief executive of its Airbus subsidiary, announced the start of the development of a new extra-wide-bodied aircraft, the A350 XWB, at a press conference on December 4th. He insisted that the new plane, which will compete with Boeing's 787 Dreamliner, had the most advanced technology, the best economics and the highest comfort level. It was also, he added, "a crucial vehicle to transform Airbus" and the test-bed for a new industrial approach.

The development of the new plane will cost some €10 billion ($13.3 billion), a tough call for a company embarking on a painful restructuring programme announced earlier this year when it became clear that delays to the production of the company's A380 super-jumbo would knock €4.8 billion off profits at EADS. The firm says it will pay for the new plane's initial development out of cashflow and cost savings. Most of the spending on the A350 XWB will be required between 2010 and 2013, when the first planes are due to be delivered.

This week's announcement follows weeks of wrangling between French and German shareholders at EADS over how to finance its development. Aside from its odd bicephalic management structure, the firm's other big headache is the weak dollar. Most of its costs are in euros and its sales are in dollars, which handicaps Airbus by 20% compared with Boeing, says Mr Gallois. So parts of the A350 XWB will be outsourced to risk-sharing partners outside Europe.

Catching up with Boeing depends on this new approach, which depends in turn on pushing through the restructuring plan. It is likely to involve job cuts in France and in Germany, the sale or closure of factories and lots of outsourcing; Mr Gallois will reveal the details early next year. But making big changes at such a politicised company will be especially tricky during the run-up to the presidential elections in France next spring. Despite this week's optimism, the hard work is still to come.

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Face value

The troubleshooter

Dec 7th 2006
From The Economist print edition

AP

Guido Rossi has made a valiant but largely fruitless effort to clean up Italian business

SOME people call him “Guidone”—big Guido. Large in both physical stature and reputation, Guido Rossi, who took over as Telecom Italia's chairman on September 15th following the surprise resignation of Marco Tronchetti Provera, has stood out from the Italian business crowd for more than three decades. Mr Rossi, who attended Harvard law school in the 1950s and wrote a book on American bankruptcy law, made his name as a corporate lawyer keen on market rules and their enforcement. He has since worked in both private and public sectors, including stints in the Italian Senate and as one of the European Commission's group of company-law experts. As well as running a busy legal practice, he also has a reputation as a corporate troubleshooter and all-round Mr Fix-It, and is often called upon to clean up organisations in crisis.

His role at Telecom Italia marks a return to the company he headed for ten months in 1997, during its politically tricky and legally complex privatisation. Before that, Mr Rossi had been sent in to sort out Ferruzzi-Montedison, an agri-business and chemicals group, which had collapsed after magistrates uncovered *tangentopoli* (“bribesville”). Last year his legal scheming was crucial in ABN Amro's victorious bid for Banca Antonveneta. Most recently, he acted as special commissioner at Italy's football association, where he was drafted in to sort out the mess after a massive match-rigging scandal exploded earlier this year.

Alas, his efforts to bleach football's dark stains produced the same meagre results as his other efforts to get Italian business and finance to change its ways. “Like Italians when *tangentopoli* burst, fans wanted justice when the scandal broke; but enthusiasm for legality quickly waned,” sighs Francesco Saverio Borrelli, Milan's former chief prosecutor, who headed the city's assault on corruption during the 1990s and was appointed by Mr Rossi to dig out football's dirt. The political muscle of the clubs prevented tough measures being taken against them, reflecting Italy's two-tier justice system in which the rich and powerful can do what they like. “Economic interests in football far outweigh sporting interests,” remarks Mr Borrelli. The rottenness in football shocked even the unshakeable Mr Rossi. “Football did not want rules, it just wanted me to solve its problems,” he says. Despairing of being able to change much, he resigned in September and turned his attention to Telecom Italia.

The telecoms giant was in turmoil after a fight with the government over its plan to spin off its mobile-phone unit caused its chairman, Mr Tronchetti Provera, to resign. One of Mr Rossi's first moves after

taking over was to ask one of his predecessors' close associates, Carlo Buora, to choose between his job as the company's executive deputy-chairman and his managing directorship at Pirelli, a tyre company where Mr Tronchetti Provera's family is the largest shareholder and which is also Telecom Italia's biggest shareholder. Mr Buora chose to stay at Telecom Italia. “He understood my point,” says Mr Rossi, who believes this has finally cut Telecom Italia free from the influence of Pirelli.

That looks like wishful thinking, however. Just over a month after resigning, Mr Tronchetti Provera and other investors in Telecom Italia registered a shareholders' pact with Consob, Italy's stockmarket watchdog. This ties Pirelli's stake to those of the Benetton family, Mediobanca, a Milanese investment bank, and Assicurazioni Generali, a large insurer in which Mediobanca is the biggest shareholder; together they hold 23% of Telecom Italia. “Italian business works in an intricate system where many company boards rubber-stamp decisions made by secretive, external pacts. The law allows this,” explains Mr Rossi. Such pacts have long been his pet hate, together with chains of nested stakes that allow businessmen like Mr Tronchetti Provera to control listed companies while owning only tiny shareholdings in them.

In 1982, when he was Consob's chairman, Mr Rossi published a book entitled “Transparency and Shame”. Although transparency has increased a little, shame is still largely absent from Italian business. “When I became Consob's chairman, I hoped improvements in accounting transparency and companies' communications would help widen Italy's stockmarket, but there has been little progress,” he says.

The good guys don't always win

A leftist senator between 1987 and 1992 and a trustee of Libertà e Giustizia, a lobby group set up in 2002 to champion the cause of Italian democracy, Mr Rossi is unafraid of controversy, takes stands on matters of principle and always speaks his mind. John Andrew, chairman of Eidos Partners, a boutique investment bank, who has worked with Mr Rossi on various deals since the late 1980s, says he is “a good straight guy with a first-rate brain, although he sometimes goes over the top”. (Mr Rossi once remarked, for example, that the only difference between the Italian prime minister's office and a merchant bank was that bankers can speak English.) Intelligent, honest and willing to speak out in a country where many stick to *omertà*, the Mafia's code of silence, Mr Rossi sounds too good to be true. In Milanese circles, some accuse him of being a *prima donna*. But even if that is so, the sin of vanity would be minor alongside his clear merits.

The wider problem is that at 75, Mr Rossi is a member of a small group of smart, principled but now greying Italian lawyers. In New York, notes a Milanese insider, you can find many lawyers who think like the Harvard-educated Mr Rossi. But not in Italy, which badly needs such people. Earlier this year a former director-general of Italy's industrialists' association, and one of Libertà e Giustizia's first trustees, complained that Italy had just endured five years of lawmaking merely to legalise illegalities. “This country's worst maladies are the rejection of rules and an aversion to change,” laments Mr Rossi, whose own attempts to cure the disease have so far been thwarted.

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Correction: Click fraud

Dec 7th 2006
From The Economist print edition

Contrary to the impression given in our report on click fraud ("Trouble clicks", November 25th, 2006), Google has always offered refunds to advertisers who can demonstrate that clicks on their ads are bogus. We apologise for the error.

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About sponsorship

Food politics

Voting with your trolley

Dec 7th 2006
From The Economist print edition

Can you really change the world just by buying certain foods?

HAS the supermarket trolley dethroned the ballot box? Voter turnout in most developed countries has fallen in recent decades, but sales of organic, Fairtrade and local food—each with its own political agenda—are growing fast. Such food allows shoppers to express their political opinions, from concern for the environment to support for poor farmers, every time they buy groceries. And shoppers are jumping at the opportunity, says Marion Nestle, a nutritionist at New York University and the author of “Food Politics” (2002) and “What to Eat” (2006). “What I hear as I talk to people is this phenomenal sense of despair about their inability to do anything about climate change, or the disparity between rich and poor,” she says. “But when they go into a grocery store they can do something—they can make decisions about what they are buying and send a very clear message.”

Those in the food-activism movement agree. “It definitely has a positive effect,” says Ian Bretman of Fairtrade Labelling Organisations (FLO) International, the Fairtrade umbrella group. Before the advent of ethical and organic labels, he notes, the usual way to express political views using food was to impose boycotts. But such labels make a political act out of consumption, rather than non-consumption—which is far more likely to produce results, he suggests. “That's how you build effective, constructive engagement with companies. If you try to do a boycott or slag them off as unfair or evil, you won't be able to get them round the table.”

Consumers have more power than they realise, says Chris Wille of the Rainforest Alliance, a conservation group. “They are at one end of the supply chain, farmers are at the other, and consumers really do have the power to send a message back all the way through that complicated supply chain,” he explains. “If the message is frequent, loud and consistent enough, then they can actually change practices, and we see that happening on the ground.”

The $30 billion organic-food industry “was created by consumers voting with their dollars,” says Michael Pollan, the author of “The Omnivore's Dilemma” (2006), another of this year's crop of books on food politics. Normally, he says, a sharp distinction is made between people's actions as citizens, in which they are expected to consider the well-being of society, and their actions as consumers, which are assumed to be selfish. Food choices appear to reconcile the two.

How green is your organic lettuce?

Yet even an apparently obvious claim—that organic food is better for the environment than the conventionally farmed kind—turns out to be controversial. There are many different definitions of the term "organic", but it generally involves severe restrictions on the use of synthetic pesticides and fertilisers and a ban on genetically modified organisms. Peter Melchett of the Soil Association, Britain's leading organic lobby group, says that environmental concerns, rather than health benefits, are now cited by British consumers as their main justification for buying organic food. (There is no clear evidence that conventional food is harmful or that organic food is nutritionally superior.)

But not everyone agrees that organic farming is better for the environment. Perhaps the most eminent critic of organic farming is Norman Borlaug, the father of the "green revolution", winner of the Nobel peace prize and an outspoken advocate of the use of synthetic fertilisers to increase crop yields. He claims the idea that organic farming is better for the environment is "ridiculous" because organic farming produces lower yields and therefore requires more land under cultivation to produce the same amount of food. Thanks to synthetic fertilisers, Mr Borlaug points out, global cereal production tripled between 1950 and 2000, but the amount of land used increased by only 10%. Using traditional techniques such as crop rotation, compost and manure to supply the soil with nitrogen and other minerals would have required a tripling of the area under cultivation. The more intensively you farm, Mr Borlaug contends, the more room you have left for rainforest.

What of the claim that organic farming is more energy-efficient? Lord Melchett points out for example that the artificial fertiliser used in conventional farming is made using natural gas, which is "completely unsustainable". But Anthony Trewavas, a biochemist at the University of Edinburgh, counters that organic farming actually requires more energy per tonne of food produced, because yields are lower and weeds are kept at bay by ploughing. And Mr Pollan notes that only one-fifth of the energy associated with food production across the whole food chain is consumed on the farm: the rest goes on transport and processing.

The most environmentally benign form of agriculture appears to be "no till" farming, which involves little or no ploughing and relies on cover crops and carefully applied herbicides to control weeds. This makes it hard to combine with organic methods (though some researchers are trying). Too rigid an insistence on organic farming's somewhat arbitrary rules, then—copper, a heavy metal, can be used as an organic fungicide because it is traditional—can actually hinder the adoption of greener agricultural techniques. Alas, shoppers look in vain for "no till" labels on their food—at least so far.

Fair enough

What about Fairtrade? Its aim is to address "the injustice of low prices" by guaranteeing that producers receive a fair price "however unfair the conventional market is", according to FLO International's website. In essence, it means paying producers an above-market "Fairtrade" price for their produce, provided they meet particular labour and production standards. In the case of coffee, for example, Fairtrade farmers receive a minimum of $1.26 per pound for their coffee, or $0.05 above the market price if it exceeds that floor. This premium is passed back to the producers to spend on development programmes. The market for Fairtrade products is much smaller than that for organic products, but is growing much faster: it increased by 37% to reach €1.1 billion ($1.4 billion) in 2005. Who could object to that?

Economists, for a start. The standard economic argument against Fairtrade goes like this: the low price of commodities such as coffee is due to overproduction, and ought to be a signal to producers to switch to growing other crops. Paying a guaranteed Fairtrade premium—in effect, a subsidy—both prevents this signal from getting through and, by raising the average price paid for coffee, encourages more producers to enter the market. This then drives down the price of non-Fairtrade coffee even further, making non-Fairtrade farmers poorer. Fairtrade does not address the basic problem, argues Tim Harford, author of "The Undercover Economist" (2005), which is that too much coffee is being produced in the first place. Instead, it could even encourage more production.

The Guardian

It makes me feel so good

Mr Bretman of FLO International disagrees. In practice, he says, farmers cannot afford to diversify out of coffee when the price falls. Fairtrade producers can use the premiums they receive to make the necessary investments to diversify into other crops. But surely the price guarantee actually reduces the incentive to diversify?

Another objection to Fairtrade is that certification is predicated on political assumptions about the best way to organise labour. In particular, for some commodities (including coffee) certification is available only to co-operatives of small producers, who are deemed to be most likely to give workers a fair deal when deciding how to spend the Fairtrade premium. Coffee plantations or large family firms cannot be certified. Mr Bretman says the rules vary from commodity to commodity, but are intended to ensure that the Fairtrade system helps those most in need. Yet limiting certification to co-ops means “missing out on helping the vast majority of farm workers, who work on plantations,” says Mr Wille of the Rainforest Alliance, which certifies producers of all kinds.

Guaranteeing a minimum price also means there is no incentive to improve quality, grumble coffee-drinkers, who find that the quality of Fairtrade brews varies widely. Again, the Rainforest Alliance does things differently. It does not guarantee a minimum price or offer a premium but provides training, advice and better access to credit. That consumers are often willing to pay more for a product with the RA logo on it is an added bonus, not the result of a formal subsidy scheme; such products must still fend for themselves in the marketplace. “We want farmers to have control of their own destinies, to learn to market their products in these competitive globalised markets, so they are not dependent on some NGO,” says Mr Wille.

But perhaps the most cogent objection to Fairtrade is that it is an inefficient way to get money to poor producers. Retailers add their own enormous mark-ups to Fairtrade products and mislead consumers into thinking that all of the premium they are paying is passed on. Mr Harford calculates that only 10% of the premium paid for Fairtrade coffee in a coffee bar trickles down to the producer. Fairtrade coffee, like the organic produce sold in supermarkets, is used by retailers as a means of identifying price-insensitive consumers who will pay more, he says.

As with organic food, the Fairtrade movement is under attack both from outsiders who think it is misguided and from insiders who think it has sold its soul. In particular, the launch by Nestlé, a food giant, of Partners' Blend, a Fairtrade coffee, has convinced activists that the Fairtrade movement is caving in to big business. Nestlé sells over 8,000 non-Fairtrade products and is accused of exploiting the Fairtrade brand to gain favourable publicity while continuing to do business as usual. Mr Bretman disagrees. “We felt it would not be responsible to turn down an opportunity to do something that would practically help hundreds or thousands of farmers,” he says. “You are winning the battle if you get corporate acceptance that these ideas are important.” He concedes that the Fairtrade movement's supporters are “a very broad church” which includes anti-globalisation and anti-corporate types. But they can simply avoid Nestlé's Fairtrade coffee and buy from smaller Fairtrade producers instead, he suggests.

Besides, this is how change usually comes about, notes Mr Pollan. The mainstream co-opts the fringe and shifts its position in the process; “but then you need people to stake out the fringe again.” That is what has happened with organic food in America, and is starting to happen with Fairtrade food too. “People are looking for the next frontier,” says Mr Pollan, and it already seems clear what that is: local food.

“Local is the new organic” has become the unofficial slogan of the local-food movement in the past couple of years. The rise of “Big Organic”, the large-scale production of organic food to meet growing demand, has produced a backlash and claims that the organic movement has sold its soul. Purists worry that the organic movement's original ideals have been forgotten as large companies that produce and sell organic food on an industrial scale have muscled in.

This partly explains why food bought from local producers either directly or at farmers' markets is growing in popularity, and why local-food advocates are now the keepers of the flame of the food-activism movement. Local food need not be organic, but buying direct from small farmers short-circuits industrial production and distribution systems in the same way that buying organic used to. As a result, local food appears to be immune to being industrialised or corporatised. Organic food used to offer people a way to make a “corporate protest”, says Mr Pollan, and now “local offers an alternative to that.”

Think globally, act locally?

Buying direct means producers get a fair price, with no middlemen adding big margins along the distribution chain. Nor has local food been shipped in from the other side of the country or the other side of the world, so the smaller number of “food miles” makes local food greener, too. Local food thus appeals in different ways to environmentalists, national farm lobbies and anti-corporate activists, as well as consumers who want to know more about where their food comes from.

Obviously it makes sense to choose a product that has been grown locally over an identical product

shipped in from afar. But such direct comparisons are rare. And it turns out that the apparently straightforward approach of minimising the “food miles” associated with your weekly groceries does not, in fact, always result in the smallest possible environmental impact.

The term “food mile” is itself misleading, as a report published by DEFRA, Britain's environment and farming ministry, pointed out last year. A mile travelled by a large truck full of groceries is not the same as a mile travelled by a sport-utility vehicle carrying a bag of salad. Instead, says Paul Watkiss, one of the authors of the DEFRA report, it is more helpful to think about food-vehicle miles (ie, the number of miles travelled by vehicles carrying food) and food-tonne miles (which take the tonnage being carried into account).

The DEFRA report, which analysed the supply of food in Britain, contained several counterintuitive findings. It turns out to be better for the environment to truck in tomatoes from Spain during the winter, for example, than to grow them in heated greenhouses in Britain. And it transpires that half the food-vehicle miles associated with British food are travelled by cars driving to and from the shops. Each trip is short, but there are millions of them every day. Another surprising finding was that a shift towards a local food system, and away from a supermarket-based food system, with its central distribution depots, lean supply chains and big, full trucks, might actually increase the number of food-vehicle miles being travelled locally, because things would move around in a larger number of smaller, less efficiently packed vehicles.

Research carried out at Lincoln University in New Zealand found that producing dairy products, lamb, apples and onions in that country and shipping them to Britain used less energy overall than producing them in Britain. (Farming and processing in New Zealand is much less energy intensive.) And even if flying food in from the developing world produces more emissions, that needs to be weighed against the boost to trade and development.

There is a strand of protectionism and anti-globalisation in much local-food advocacy, says Gareth Edwards-Jones of the University of Wales. Local food lets farming lobbies campaign against imports under the guise of environmentalism. A common argument is that local food is fresher, but that is not always true: green beans, for example, are picked and flown to Britain from Kenya overnight, he says. People clearly want to think that they are making environmentally or socially optimal food choices, he says, but “we don't have enough evidence” to do so.

What should a shopper do? All food choices involve trade-offs. Even if organic farming does consume a little less energy and produce a little less pollution, that must be offset against lower yields and greater land use. Fairtrade food may help some poor farmers, but may also harm others; and even if local food reduces transport emissions, it also reduces potential for economic development. Buying all three types of food can be seen as an anti-corporate protest, yet big companies already sell organic and Fairtrade food, and local sourcing coupled with supermarkets' efficient logistics may yet prove to be the greenest way to move food around.

Food is central to the debates on the environment, development, trade and globalisation—but the potential for food choices to change the world should not be overestimated. The idea of saving the world by shopping is appealing; but tackling climate change, boosting development and reforming the global trade system will require difficult political choices. “We have to vote with our votes as well as our food dollars,” says Mr Pollan. Conventional political activity may not be as enjoyable as shopping, but it is far more likely to make a difference.

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Islamic finance

Calling the faithful

Dec 7th 2006
From The Economist print edition

Western investors tap an emerging market in sharia-compliant products

Camera Press

IT was one of the year's big political flash points: the takeover of Britain's P&O, an international ports operator, by DP World of Dubai caused a rumpus from Westminster to Washington, DC. Politicians may have shunned the bid but investors did not—even though it was financed with a *sukuk*, a bond-like product compliant with the principles of *sharia*, or Islamic law. Demand was so strong that the initial $2.8 billion issue was raised to $3.5 billion, and ultimately drew $11.4 billion in subscriptions, about half of them from international investors.

No wonder investment bankers—who needed terms like *riba* (interest) translated only a year ago—no longer scratch their heads at the wonders of Islamic finance. Next week a new $2.5 billion *sukuk* offered by Nakheel, a big Dubai developer, closes. It will be the world's second-largest such note—and could even surpass the one from Dubai Ports, Customs and Free-Zone Corporation (PCFC), the parent of DP World. In the most recent such issue (an $800m *sukuk* from Abu Dhabi Investment Bank that closed on December 4th) nearly 40% of the investors came from Europe.

Islamic finance, long considered in the West as more of an oddity than an opportunity, is going mainstream. Standard & Poor's, a rating agency, puts the market for Islamic financial products—banking, mortgages, equity funds, fixed income, insurance, project finance, private equity and even derivatives—at about $400 billion. It is estimated to have grown at some 15% annually in the past three years, and looks set to expand further as the petro-economies of the Gulf boom and Western investors become more comfortable with some of its cultural differences.

Once available only in mostly Muslim places like Malaysia and the Gulf (Bahrain was a pioneer), Islamic finance now appeals to some of the world's biggest financial institutions seeking to tap into emerging markets. Investment banks, hedge funds and even pension-fund managers are getting keener. “This is a new, parallel financial system,” says Sameer Abdi of Ernst & Young, a consultancy. “It's not something that can be ignored.”

No improprieties, no interest

To get the stamp of approval from Islamic scholars as *sharia*-compliant, a product should adhere to two principles: it must not pay interest, and wealth should not be generated from means considered improper;

alcohol, gambling and tobacco, for example, are off-limits.

Although *sharia*-compliant products have been around for decades, there are several reasons why the market has taken off in the past few years. First is the sheer wealth in parts of the Middle East where oil—and petrodollars—gush (see article). Rich Muslims have long parked much of their money abroad, and continue to do so. Mr Abdi says about one-third of investors in countries where there is a Muslim majority are seeking *sharia*-compliant products; another 50-60% will use them if they are "commercially competitive".

At the company level, Middle Eastern institutions no longer rely exclusively on private financing (if they need to borrow at all). They are now shifting to public vehicles that offer access to international markets. As they become more conspicuous, such companies are seeking to comply with the Islamic traditions in their countries. So, for instance, Islamic finance has been used in big infrastructure projects.

Meanwhile, foreign investors want to diversify across countries and asset types. "As a global investor, you need exposure to this region of the world," says Arul Kandasamy, head of Islamic banking at Barclays Capital, which helped arrange both the PCFC and Nakheel *sukuks*. In the Middle East more than 80% of fixed-income products are Islamic. Malaysia also has a big concentration: about 60% of the $40 billion global *sukuk* market is there.

Investors who used to hang back from these notes due to worries about the lack of liquidity—there is virtually no secondary market for most of them—are emboldened by the recent, bigger offerings. Mr Kandasamy says the average volume of trading in the PCFC *sukuk* has been $10m a day since its launch.

Finally, for foreign institutions raising funds, "this is another pool of money" to tap, says Matthew Sapte, a London-based lawyer working on Islamic-finance deals. "A number of European corporates are looking at this very closely."

No wonder then that international banks are offering *sharia*-compliant products of their own. Some have long experience. Citibank, for instance, has offered Islamic products since the 1990s. ABN AMRO, BNP Paribas, Standard Chartered, and Goldman Sachs are also involved.

As the market for Islamic products has become more crowded, yields have fallen. Today the returns on Islamic products in the Gulf are similar to those of comparable conventional instruments in the region, says Abdulkader Thomas, a financial consultant and founder of the *American Journal of Islamic Finance*. In Malaysia, he adds, *sharia*-compliant products have lower yields than conventional products, but they are also taxed at a lower rate.

For all the excitement being generated, Islamic finance is still just a sliver of the global financial market. And international investors still find aspects of it immature. For example, there is a dearth of credit ratings for Islamic products and institutions (which is also true of many conventional instruments in the Middle East).

If the industry is to avoid being "ghettoised", argues Anouar Hassoune, an analyst at Standard & Poor's, it needs to shape up in several ways. First, it must become more standardised. Products considered *sharia*-compliant in relatively liberal Malaysia are off-limits in more conservative Saudi Arabia. Second, accounting standards and financial reporting must be better aligned. Third, he says, more innovation is needed, particularly in areas such as derivatives and structured finance. Fourth, there is a skills shortage, which is driving up salaries for anyone working in Islamic finance. Lastly, the industry needs to create new tools for assessing risk.

None of these challenges is insurmountable. This is an era of financial innovation where investors delight in exploring new areas of risk. Cultural barriers are there to be crossed.

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Buttonwood

Ageing bull

Dec 7th 2006 | NEW YORK
From The Economist print edition

With few places left to turn, investors have pinned their hopes on the stockmarket

ROCKY is returning to American cinemas this Christmas. And the financial markets increasingly resemble Sylvester Stallone's ageing pugilist: they may get knocked about a bit, but they always seem to bounce back.

In recent weeks disappointing economic data have pointed to the possibility of an American recession in 2007. The dollar has weakened sharply, raising the spectre of the complete collapse that bears have been predicting for years. And on December 4th Pfizer, the pharmaceuticals giant, saw its share price plunge after yet another drug failed the testing process (see article).

But the stockmarket has rolled with the punches. And other asset classes have been similarly buoyant. The spreads (extra yields) on corporate bonds and emerging-market debt are low by historical standards; commercial-property valuations in America and Britain are high.

The general explanation for this bullishness is that the world is flush with liquidity. But liquidity is one of those catchall phrases that is not as good as it sounds—a bit like saying “there are more buyers than sellers”, which is itself a cliché of dubious merit (for every buyer who makes a trade, there must be a seller).

What does appear to be clear is that investors are happy to take on risk and eager to buy any asset that offers a higher yield than government bonds. And even those investors who do worry about the American recovery, or about political risks in the Middle East, have to think twice before they sell. The corporate sector is still increasing profits and churning out cash in the form of dividends and share buy-backs. Every Monday seems to bring news of a mega-merger; on December 4th, it was the combination of Bank of New York and Mellon Financial (see article). Potential bid targets from the private-equity sector get larger and larger (the latest tittle-tattle is about Home Depot, worth over $100 billion if you throw in debt). Why sell your shares if someone might be willing to buy them tomorrow at a 20% premium?

As for the dollar, the reason to worry would be if a falling currency prompted foreign investors to demand higher yields on American Treasury bonds to compensate them for the risk. That might really push America into recession. But it is not happening so far; yields have been falling.

All this adds up to what Jim Cramer, the hyperactive pundit of American financial television, describes as “one of the best markets I've ever seen.” Bulls are talking about double-digit stockmarket returns in 2007, thanks to a combination of stockmarket rerating (higher price-earnings multiple) and growing profits.

So what might spoil the party? One problem, as the producers of the Rocky series know only too well, is that sequels are subject to the laws of diminishing returns. Once bond spreads and property yields are low, there is no longer much scope for further capital gains.

That is why investors' hopes are pinned on the stockmarket in 2007; share valuations are only at historically average levels. But company profits are at a 40-year high as a share of American GDP. If profits were about to revert to the mean, share multiples should fall below average.

The bulls do not think that will happen soon. But whereas one more year of above-average profits growth is possible, three or four more are hard to imagine.

Clearly, the use of borrowed money to enhance returns (often referred to as the “carry trade”) means that the markets are vulnerable to a change in sentiment. When the trend changes, as it did in May, there will

be a mad rush for the exits. As Bill Gross of Pimco, a bond giant, writes: “I have a strong sense that the ability to lever any or all asset returns via increasing leverage is reaching a climax.”

Timing, however, is notoriously difficult. Bears can point to low share volatility, as measured by the Chicago Board Options Exchange's VIX gauge, as a sign of investor complacency. But it may merely be that investors have seen no need to incur the costs of insuring their portfolios against loss.

The markets will thus need some sort of shove to push them off today's course. Higher unemployment would be one possibility: it might turn the housing-market correction into a rout. If the nuclear dispute with Iran were to escalate so that, say, the straits of Hormuz were blocked and crude jumped to $100 a barrel, investor confidence would take a hit.

But predicting such events is more in the realms of astrology than financial punditry. Sceptical fund managers have been forced into a position of being “fully invested and scared as hell.” The knockout blow will undoubtedly come (probably in the credit markets). But just like the Rocky franchise, bull runs on financial markets have a habit of going on much longer than most people expect.

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House prices

Bubble and squeak

Dec 7th 2006
From The Economist print edition

While America's housing market cools, property elsewhere is still hot

IN MANY countries, people are showing little sign of losing their appetite for residential property. Although the pace in several of the raciest markets around the world has eased a bit in the last quarter, prices have risen by more than 10% in the past year in eight of the countries in our table. *The Economist* has been collating these house-price indicators since 2002, allowing us to track the global residential-property boom (see chart).

However, in America the steam has come out of the housing market. In the year to the third quarter, the index of house prices compiled by the Office of Federal Housing Enterprise Oversight (OFHEO), a regulator, rose by 7.7%, the smallest year-on-year increase for three years. In the quarter itself, prices rose by only 0.9%, the weakest for more than eight years.

The Economist's house-price indicators

% change

	Latest	Q3 2006	1997-2006
	on a year earlier		
Denmark	23.3	18.7	115
Ireland	14.2	6.2	252
Canada	12.8	4.3	69
South Africa	12.7	20.7	327
France	12.5	15.5	127
Sweden	12.0	9.5	123
Belgium	11.8	20.0	118
Spain	10.8	13.4	173
New Zealand	9.6	14.9	94
Australia	9.5	1.7	132
Britain	9.6	2.7	192
United States	7.7	12.7	100
Singapore	7.6	3.3	na
Italy	6.6	7.3	88
Netherlands	6.2	5.3	97
China	5.4	5.5	na
Switzerland	2.0	0.8	16
Germany	-0.8	-1.3*	-1†
Hong Kong	-2.1	20.3	-44
Japan	-2.7	-5.4	-32

*2004 †1997-2005

Sources: ABSA; Bulwien; ESRI; Japan Real Estate Institute; Nationwide; Nomisma; NVM; OFHEO; Quotable Value; Stadim; Swiss National Bank; government offices

The National Association of Realtors reported that the median sale price of existing homes was the same in October as in September, 3.5% less than a year before; according to the Census Bureau, the median price of a new home bounced up in October. But both figures have been affected by a shift in the regional pattern of sales.

Only in the West, where homes tend to be among America's biggest and dearest, did the number of existing or new houses sold increase in the month. In the North-East, sales of new homes dropped by 39%. Across America, existing-home sales were down by 11.5% in the year; those of new properties were down by a quarter.

A huge number of homes is awaiting sale: 7.4 months' supply of both existing and new properties. David Rosenberg, an economist at Merrill Lynch, points out that inventories of new homes are 40% above their historical norm. The number of new properties completed but not yet sold has risen by 50% in the past year, to 166,000. America's builders are cutting back hurriedly. In October alone private residential-construction spending fell by 1.9%; it was 9.4% lower than a year before.

Although America's bubble is deflating, other markets are still looking decidedly frothy. Denmark tops our property-inflation table; elsewhere in Europe, house prices in France, Spain and Ireland are still simmering. In Australia and Britain, where it once seemed that property markets had levelled off, prices have picked up again, rising by 9.5% and 9.6% respectively to November of this year.

The Australian figure disguises marked regional variations. Prices in Sydney rose rapidly in 2003, fell in late 2004 and 2005 and are (just) increasing again. In sizzling Perth prices rose by 46% in the year to the third quarter. In Britain too the pace varies from one area to another: in the year to the third quarter, prices in Northern Ireland rose by a third, according to the Nationwide building society, while those in the north of England rose by less than 1%. But the renewed pep in the national pattern has revived talk of a housing bubble.

In a thoughtful recent study David Miles, of Morgan Stanley, tries to explain the doubling of real British house prices in the past decade. Some of the increase, he says, can be ascribed to rising real incomes; a smaller share can be explained by increases in population; some can be put down to lower real interest rates (including the keener pricing of mortgages by lenders). However, a lot of it is speculative. Between one-third and one-half is due to increased expectations of house-price inflation. These amplify the effects of other factors. Faster increases in prices foster the belief that future increases will also be stronger, so that higher prices fuel demand rather than dampen it.

The need to explain so much of Britain's house-price inflation by a change in expectations, writes Mr Miles, “suggests that the current level of house prices may be rather unstable.” Once those expectations come down, real house prices are likely to fall. The trouble, of course, is predicting when.

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American finance

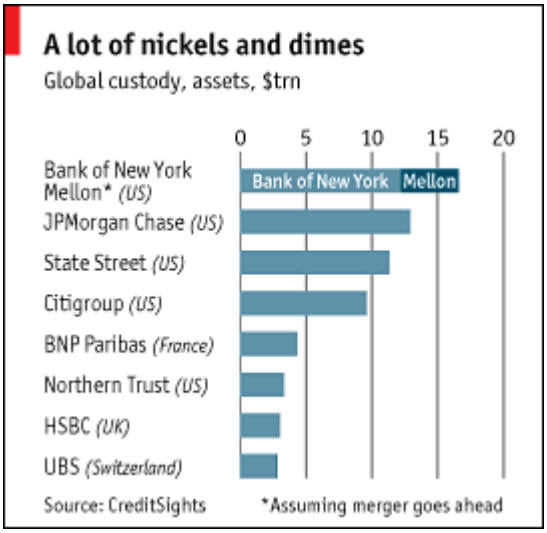
Joint custody

Dec 7th 2006 | NEW YORK
From The Economist print edition

Bank of New York and Mellon shake up what is a dull business no longer

"NOTHING takes the taste out of peanut butter quite like unrequited love," noted Charlie Brown. The all-American spread must taste more delectable than ever to executives at Bank of New York (BoNY). Eight years after their first attempt to woo a forerunner of Mellon Financial, a Pittsburgh-based rival, was roundly rebuffed, the two banks have fallen into each other's arms. It is hard to find anyone—except their competitors—who isn't pleased for them.

The new bank, which will go by the not-so-pithy name of The Bank of New York Mellon Corporation, will just squeak into the list of the world's top ten asset managers. More importantly, it will be the new number one in global custody (also known as asset servicing), overtaking JPMorgan Chase and cementing American dominance of that business (see chart).



Global custodians safeguard and administer securities for banks, mutual funds and other institutional investors. It is an unglamorous line of work, but an important one. It can also be lucrative: BoNY and Mellon made combined net profits of $1.88 billion from servicing others' assets in the first nine months of the year.

The benefits of financial mergers are often exaggerated, but in the case of custody scale is universally acknowledged as a good thing. Custodians handle huge sums—the new bank will keep $16.6 trillion-worth of assets—but only get to hold on to a tiny sliver and, says David Hendler at CreditSights, a research firm, must live with very tight profit margins. The only way to gain an edge is to have the best (ie, most expensive) technology and lots of customers. "It's a business of dimes and nickels, not dollars," says one adviser to the industry, "so it pays to be the low-cost, high-volume producer." The market clearly thinks BoNY and Mellon have grabbed that role: both banks' shares leapt after the deal was announced.

For both, it comes after years of evolution away from general banking, during which they sold their branch networks and snapped up custody-type businesses. But there are still areas where they complement each other. BoNY is bigger in asset servicing and more focused on supporting financial institutions; Mellon is stronger in fund management and looking after assets for pensions and endowments. The main risk, as ever, will be integration—though the man who will be chief executive, Mellon's boss Robert Kelly, has plenty of experience in crunching banks together.

The deal comes as the asset-servicing business is changing in various ways. First, it is going global. The American market has seen lots of consolidation (though JPMorgan Chase or Citigroup may yet try to swallow State Street, the third-largest actor). By contrast, Europe is fragmented and much of Asia is virgin territory. The big American custodians hope to do well in China. A combined BoNY Mellon would already do a quarter of its business outside America.

The second big change is the broadening of what counts as asset servicing. Storing and settling stocks and bonds is no longer enough. The industry is rushing to offer more lucrative services such as short-term securities lending. This is growing as more traders borrow to short stocks or because they need an underlying instrument for a derivatives contract: more than $3 trillion-worth of paper will be lent out this

year in America and Europe, according to Celent, a research firm.

The third change is closely related to the second: custodians are courting new kinds of customers, namely—you guessed it—hedge funds and private-equity firms. These are keen to outsource their back-office administration so they can focus on trading, and the big banks are rushing to pick up this fiddly work. One way they are doing this is through “lift-outs”, where they buy, say, a hedge fund's back-office technology and staff, move them in-house and use that platform to attract asset-servicing business from other hedge funds. In February JPMorgan Chase did a deal of this sort with Paloma Partners, a Greenwich-based fund.

Cosying up to hedge funds is about more than moving with fashion. Winning custodial work from them often leads to other business—“if you know the plumbing, you know who's running the water,” as one banker puts it. And as hedge funds tread deeper into elaborate swaps, options and the like, those who service such assets stand to gain, for with complexity comes profit. Whoever said global custody was dull?

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EU trade

The perils of protectionism

Dec 7th 2006 | BRUSSELS
From The Economist print edition

Europe finds that trade retaliation can backfire

PETER MANDELSON is an avowed trade liberal. So it is somewhat embarrassing that as the European Union's Commissioner for Trade, he has presided over the imposition of punitive duties on a wave of Asian imports. Last year, he also found himself on the losing side of the “bra wars”, after a protectionist deal he reached with the Chinese government on textiles unravelled. But on December 6th he had the chance to repair his liberal credentials when he launched a green paper on the EU's trade-defence policy.

The EU's trade-defence rules, which determine when it can impose anti-dumping, anti-subsidy and safeguard measures, were drawn up a decade ago. But they are beginning to show their age. Global supply chains have stretched round the world and many European companies have outsourced production to Asia. As a result, more European companies are being hit by the EU's own retaliation against unfair competition. That has pitted Europe's retailers against some of its manufacturers. As one retail boss puts it, views diverge widely: “They [the manufacturers] see China as a threat and we see China as an opportunity”.

Reuters

Getting his noodles in a twist

Mr Mandelson's exercise is a chance to rethink what policy would do most good for Europe's economies. He wants the EU to look again at the “community-interest” test—that anti-dumping duties can be introduced only if they are in the wider interests of European business and consumers. Retailers complain that the test is in practice biased towards producers.

The green paper gives little away about what the European Commission hopes to achieve. Cliff Stevenson, an anti-dumping consultant who has worked for the commission, says that one option could be to extend the definition of community industry to include European businesses with overseas operations. This could give those companies a voice when the commission is investigating an anti-dumping case.

Determining Europe's best economic interest is already a fraught business in a union of 25 members (soon to be 27). Traditionally, there has been a divide between northern liberal countries, such as Britain and Sweden, and protectionist founder members, such as France and Italy. In October all member states signed up to Mr Mandelson's review of trade defences. But it is unlikely they will agree on much else, least of all any radical changes.

This means the review could be a damp squib. However, there were signs that the Commission is working to meet other trade concerns. This week it said it would push for labour standards to be part of bilateral trade deals with Asian countries, such as India and South Korea. This was welcomed by some European countries. It might help Mr Mandelson to win the argument for a careful expansion of the community interest. But don't count on it.

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Fund management

A Miller's tale

Dec 7th 2006
From The Economist print edition

The winning streak of a super-investor comes to an end

BEATING the S&P 500 index over one year could be put down to luck. But doing so 15 times in a row is about as likely as Elvis Presley landing a spaceship in the grounds of Buckingham Palace. So the success of Bill Miller, a fund manager at the Baltimore-based Legg Mason, has been a conundrum for those who believe in efficient markets.

The good news for the doubters is that his streak is set to come to an end this year. With a month to go, his Value fund had made a return of just 3.5%, well behind the S&P's 12.6%. Mr Miller admits to a few mistakes, including failing to own enough energy stocks, buying into housebuilding shares too early and suffering disappointing returns on some of his big internet picks, like Yahoo!.

How does one explain the success of super-investors, such as Mr Miller or Warren Buffett, when so few fund managers beat the index? One trait of good long-term investors seems to be that they rarely trade; it takes them several years, rather than a few months, to turn over their portfolios. A lot of investors trade frantically and achieve nothing but higher costs; Mr Miller changes just 15% of his portfolio every year.

Failure at his 16th attempt does not seem to have dampened his spirit. After all, since the market started to rebound in August, he has been beating the index once more. And he is ultra-bullish about the outlook for 2007, saying that 15-25% returns from America's stockmarket are “not [an] unreasonable scenario”. Indeed, just as when the market bottomed in 2002, he is willing to borrow money to buy shares. With a record like his, it takes guts to bet against him.

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The wealth of nations

Winner takes (almost) all

Dec 7th 2006
From The Economist print edition

The other half live with less than $2,161 to their name

MUCH of Adam Smith's classic treatise on the “Wealth of Nations” is not really about wealth at all, but about income. The two concepts are different: income is the flow of money a nation or household receives in a year; wealth is the stock of assets it has accumulated over its life so far, minus its debts.

The difference matters but how much so is hard to say. The global distribution of income has been noisily debated; the distribution of wealth ignored. Economists can talk (and argue) only about what they can measure, and whereas they struggle to measure global income inequality, they have barely ventured to do the same for wealth. Until now.

Price of privilege

Minimum wealth required to be in:
2000, $

Top 50%	2,161	Top 10%	61,041
Top 40%	3,517	Top 5%	150,145
Top 30%	6,318	Top 1%	514,512
Top 20%	14,169		

Source: World Institute for Development Economics Research

The World Institute for Development Economics Research (WIDER) in Helsinki this week released a bold attempt to measure how personal wealth (which includes financial assets, real estate, consumer durables and even livestock) was distributed around the world in 2000.

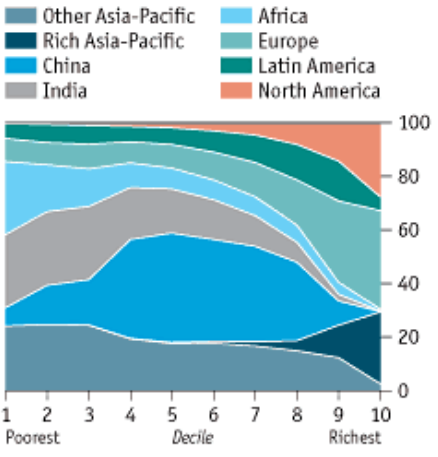
Britain, Sweden and America have been counting their wealth for a century or more. Other high-income countries have been tallying it for decades. But it was not until three populous, poorer countries—China, India and Indonesia—began surveying household wealth that a global reckoning became thinkable.

Whether even now it is quite doable remains a matter of judgment. The authors have numbers, sometimes patchy, for just 38 countries. For the remaining 191, they have to “impute” wealth, based on how they compare with the countries they do know something about.

What do they find? If you had more than $2,161 (measured by official exchange rates) in 2000, you belonged to the wealthier half of the human race. Were you lucky enough to own more than $515,000, you could hobnob with the top 1% (although this is a “far from exclusive club”, containing 37m adults). The top ranks are still dominated by the Americans, Japanese and Europeans (see chart). China occupies the middle ground. Wealth is shared much less equitably than income: more than half of it is held by just 2% of the world's adults. The distribution is equivalent to a world of ten people, in which one had $1,000 and the other nine had $1 each.

Layers of loot

Global wealth distribution by region and decile
%, 2000



Source: World Institute for Development Economics Research

Many people in poor countries have next-to-nothing; but quite a lot of people in rich countries have less than that: their liabilities exceed their assets. For example, the bottom half of Swedes have a collective net worth of less than zero. That said, the Nordic countries seem to thrive without much personal wealth. Finland, for example, has wealth per head (measured in terms of purchasing-power parity) of under $39,000, less than South Korea. The Finns' entitlement to a generous state pension and other largesse counts for more than a nest egg to call one's own.

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The Securities and Exchange Commission

Under surveillance

Dec 7th 2006 | NEW YORK
From The Economist print edition

A top regulator tastes its own medicine

THESE are trying times for America's chief markets watchdog, the Securities and Exchange Commission (SEC), which is being blamed for acting too tough and not tough enough both at the same time. A report last week by an independent panel suggested it was overzealous in enforcing its rules. At Senate hearings this week, the question was whether it pulls its punches when investigating the great and good.

The hearings focus on the SEC's handling of a probe into alleged insider trading. A former investigator with the agency, Gary Aguirre, claims his supervisors there blocked his efforts to look into whether a hedge fund, Pequot Capital Management, traded on private information provided by John Mack, chief executive of Morgan Stanley, ahead of mergers. Mr Mack was chairman of Pequot briefly last year before taking over at the big investment bank.

Mr Aguirre was fired last year after claiming that the SEC was reluctant to tackle influential figures. Mr Mack was eventually interviewed in connection with the probe, after Congress had started to take an interest. Senior SEC staff insist there was never enough evidence to link him to dodgy trades. The case was formally dropped last month. Mr Mack and Arthur Samberg, Pequot's founder, have repeatedly denied wrongdoing.

On December 5th Mr Aguirre's former supervisors testified that he was generally erratic, aggressive towards colleagues and obsessed with nailing Mr Mack. To some, this characterisation sits oddly with the fact that he received a merit-based pay rise less than a month before leaving. Moreover, it has emerged that he was not alone in his suspicions: a market-surveillance lawyer who is still at the SEC confirmed to senators that he had given warning in an e-mail that “something smells rotten” about the investigation. The politicians seem to be siding with Mr Aguirre too. “At best, it looks like extraordinarily lax enforcement... At worst, it has the overtone of a possible cover-up,” said Arlen Specter, head of the Senate's judiciary committee.

Getting to the truth will take time. Further testimony will be heard, with the Senate expected to publish a report early next year. To make matters worse, the SEC's enforcement and compliance departments are being investigated by the Government Accountability Office, an arm of Congress. The watchdog has arguably never been so closely watched.

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Economics focus

The petrodollar peg

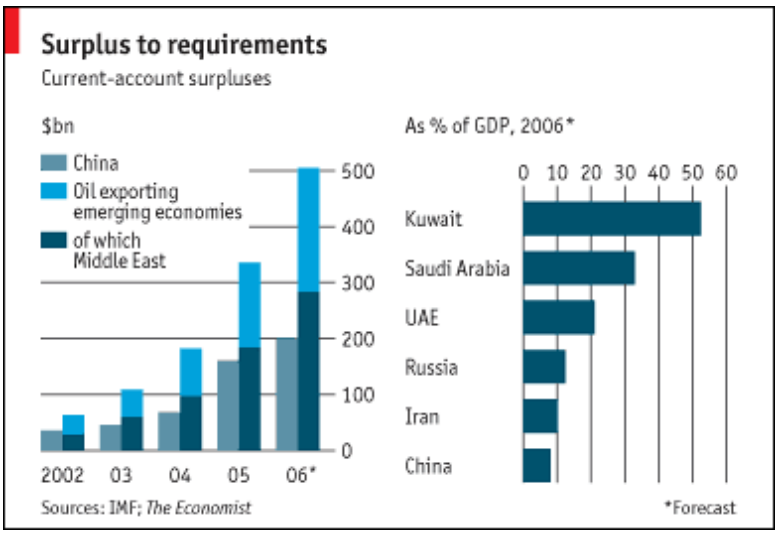
Dec 7th 2006
From The Economist print edition

America should worry more about fixed exchange rates in the Gulf than the gently rising Chinese yuan

Illustrations

AMERICAN politicians and businessmen view China's undervalued exchange rate and its huge current-account surplus as the main cause of America's vast deficit. Thus next week a high-powered delegation led by Henry Paulson, America's treasury secretary, will fly to Beijing to persuade China to take measures to reduce its surplus. But are they heading to the right place? At the global level, the biggest counterpart to America's deficit is the combined surpluses of the oil-exporting emerging economies. They are expected to run a total current-account surplus of some $500 billion this year, dwarfing China's likely surplus of $200 billion (see chart).

Counting only the Middle East oil exporters, the surplus has surged from $30 billion in 2002 to an estimated $280 billion this year. One reason why this gets much less attention than the smaller $160 billion increase in China is that only a fraction of it has gone into official reserves, which are publicly reported. Most of it is stashed in government oil-stabilisation or investment funds, such as the Abu Dhabi Investment Authority, which are much more secretive than the People's Bank of China—but which probably hold just as many dollar assets.



One big difference is that China is now allowing the yuan to rise against the dollar. The exchange rate is up by an annual rate of almost 7% since September. In contrast, the six members of the Gulf Co-operation Council, or GCC (Saudi Arabia, United Arab Emirates, Kuwait, Bahrain, Oman and Qatar), which account for virtually all of the Middle East's surplus, still peg their currencies firmly to the dollar. This is partly in preparation for the GCC's plan to adopt a single currency by 2010. But the bizarre result is that over the past four years of soaring oil prices, their real trade-weighted exchange rates have fallen.

The Gulf economies are running an average current-account surplus of 30% of their GDP, well in excess of China's surplus of 8%. Oil exporters cannot spend their windfall overnight and it makes sense for them to run a surplus when oil prices rise, as a buffer for when oil prices fall. Even so, one can have too much of a good thing.

It might be best for the Gulf states as well as the world economy if they abandoned their dollar pegs and shifted to some sort of currency basket. A more flexible exchange-rate regime would allow them to regain

control of their monetary policies and so cool down their overheating economies. By pegging their exchange rates to the dollar, they have had to adopt America's monetary policy, leaving real interest rates too low (often negative) for such fast-growing economies. Credit is growing too rapidly, inflation is rising and the prices of assets, especially property in places such as Dubai, have exploded.

Official price indices almost certainly understate inflation. According to government figures, prices are rising in the UAE at an annual rate of 7%, but independent estimates put it at 15%. The dollar's slide against other major currencies is pushing up the price of imported goods. Only 10% of the GCC's imports come from America (compared with one-third each from Europe and Asia), so from a trade-weighted point of view, the dollar peg makes no sense.

In theory, a higher oil price should imply a rise in oil exporters' real exchange rates; and it is better if this occurs through a rise in the nominal rate rather than higher inflation. The main argument against allowing the exchange rate to rise is that it would harm the competitiveness of the non-oil sector in economies that need to diversify. However, pegging to the dollar has not always been a boon to the economies as a whole. When the dollar strengthened in the late 1990s, non-oil industries were squeezed at the same time that the price of crude was sliding. This is another reason why pegging to a trade-weighted basket would make much more sense.

Oiling the world's wheels

Brad Setser, an economist at Roubini Global Economics, a research firm, argues that the dollar pegs of the Gulf states are also preventing some necessary rebalancing in the world economy. The recent depreciation of their trade-weighted currencies has raised the price of foreign goods and thus may be one reason why the increase in their imports has been unusually weak relative to the increase in exports. If, as seems likely, the dollar continues to fall, it will further drag down their currencies and thus keep external imbalances large.

A fully floating exchange rate would lead to too much volatility, but a bit more flexibility could usefully help oil exporters to adjust to fluctuations in oil prices. A trade-weighted basket, in which the euro had a large weight, would help to stabilise the real exchange rate of the GCC countries and so protect their competitiveness. It still would not ensure that oil exporters' currencies moved correctly in line with the oil price, however.

Some economists have therefore suggested that oil exporters should link their currencies in some way to the oil price. Currencies would rise when oil prices are high and fall when prices were weak. This would help to boost countries' external purchasing power and hence their imports when oil prices boom. It would also help to smooth the local currency value of oil revenues and hence government income, helping to avoid big deficits in bad times and huge surpluses in good times.

Oil exporters argue that they peg to the dollar because oil is priced in dollars and they want to avoid exchange-rate risk. But exchange-rate stability does not guarantee economic stability. On the contrary, a more flexible currency would allow economies to manage oil-price shocks better.

However, a rise in petro-currencies would not be a cure by itself for America's deficit (nor, for that matter, is a dearer Chinese yuan). The main solution to global rebalancing is for America to save more and for surplus countries, including both the oil exporters and China, to spend more. A rise in oil exporters' currencies could play a part in that.

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Genetic modification

Filling tomorrow's rice bowl

Dec 7th 2006
From The Economist print edition

Genetic engineers are applying their skills to tropical crops

Reuters

EVERY hectare of paddy fields in Asia provides enough rice to feed 27 people. Fifty years from now, according to some projections, each hectare will have to cater for 43. Converting more land to paddy is not an option, since suitable plots are already in short supply. In fact, in many of the continent's most fertile river basins, urban sprawl is consuming growing quantities of prime rice-farming land. Moreover, global warming is likely to make farmers' lives increasingly difficult, by causing more frequent droughts in some places and worse flooding in others. Scientists at the International Rice Research Institute (IRRI) doubt it is possible to improve productivity as much as is needed through better farming practices or the adoption of new strains derived from conventional cross-breeding. Instead, they aim to improve rice yields by 50% using modern genetic techniques.

On December 4th the Consultative Group on International Agricultural Research (CGIAR), a network of research institutes of which IRRI is a member, unveiled a series of schemes intended to protect crop yields against the ill effects of global warming. Many involve genetic engineering—which is generally embraced by farmers in poor countries even if some Western consumers turn their noses up at it. Some, though, only use genetics to identify useful genes. For example, IRRI's scientists have found a gene that allows an Indian rice strain to survive total immersion for several weeks, and have cross-bred it into a strain favoured by farmers in flood-prone Bangladesh. In trials, the new plant produced as much rice as the original under normal conditions, but over twice as much after prolonged flooding. This trait could increase the world's rice harvest dramatically, since flooding damages some 20m hectares (50m acres) of rice each year out of a total crop of 150m hectares.

By far the most ambitious project on CGIAR's list, though, involves transforming the way in which rice photosynthesises. That will require some serious genetic restructuring.

Three into four will go

Most plants use an enzyme called rubisco to convert carbon dioxide (CO_2) into sugars containing three carbon atoms—a process known as C3 photosynthesis. But at temperatures above 25°C, rubisco begins to bond with oxygen instead of CO_2, reducing the efficiency of the reaction. As a result, certain plants in warm climates have evolved a different mechanism, called C4 photosynthesis, in which other enzymes help to concentrate CO_2 around the rubisco, and the initial result is a four-carbon sugar. In hot, sunny

climes, these C4 plants are half as efficient again as their C3 counterparts. They also use less water and nitrogen. The result, in the case of staple crops, is higher yields in tougher conditions: a hectare of rice, a C3 plant, produces a harvest of no more than eight tonnes, whereas maize, a C4 plant, yields as much as 12 tonnes.

Turning a C3 plant into a C4 one, though, is trickier than conferring flood resistance, since it involves wholesale changes in anatomy. C4 plants often absorb CO_2 from the air in one type of cell and then convert it to sugars through photosynthesis in another. C3 plants, by contrast, do both jobs in the same place.

On the other hand, C4 photosynthesis seems to have evolved more than 50 times, in 19 families of plant. That variety suggests the shift from one form of photosynthesis to the other is not as radical as might appear at first sight. It also gives researchers a number of starting points for the project. Some C4 plants, for example, absorb CO_2 and photosynthesise it at either end of special elongated cells, instead of separating the functions out into two different types of cell. Many C3 plants, meanwhile, have several of the genes needed for C4 photosynthesis, but do not use them in the same way. In fact, the distinction between C3 and C4 plants is not always clear-cut. Some species use one method in their leaves and the other in their stems.

John Sheehy, one of IRRI's crop scientists, plans to screen the institute's collection of 6,000 varieties of wild rice to see if any of them display a predisposition for C4 photosynthesis. Other researchers, meanwhile, are trying to isolate the genes responsible for C4 plants' unusual anatomy and biochemistry. A few years ago, geneticists managed to get rice to produce one of the enzymes needed for C4 photosynthesis by transplanting the relevant gene from maize.

The task, admits Robert Zeigler, IRRI's director, is daunting, and will take ten years or more. But the potential is enormous. Success would not only increase yields, but also reduce the need for water and fertilisers, since C4 plants make more efficient use of both. Other important C3 crops, such as wheat, sweet potatoes and cassava, could also benefit. If it all works, a second green revolution beckons.

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Palaeoeconomics

Mrs Adam Smith

Dec 7th 2006
From The Economist print edition

Modern humanity's battle with Neanderthals may have been won by the women who invented the division of labour

NEANDERTHAL man was a strong, large-brained, skilful big-game hunter who had survived for more than 200,000 years in the harsh European climates of the last Ice Age. But within a few thousand years of the arrival of modern humans in the continent, he was extinct. Why that happened is a matter of abiding interest to anthropologically inclined descendants of those interloping moderns. The extinction of Neanderthal man has been attributed variously to his having lower intelligence than modern humans, to worse language skills, to cruder tools, or even to the lack of a propensity for long-distance trade. The latest proposal, though, is that it is not so much Neanderthal man that was to blame, as modern woman.

In existing pre-agricultural societies there is, famously, a division of food-acquiring labour between men, who hunt, and women, who gather. And in a paper just published in *Current Anthropology*, Steven Kuhn and Mary Stiner of the University of Arizona propose that this division of labour happened early in the species' history, and that it is what enabled modern humans to expand their population at the expense of Neanderthals.

As Adam Smith noted, division of labour leads to greater productivity because it allows people to specialise and become very good at what they do. In the vast majority of cases among historically known and present-day foragers, men specialise in hunting big game, while women hunt smaller animals and collect plant food. In colder climes, where long winters make plant-gathering difficult or impossible for much of the year, women often specialise in making clothing and shelters.

The archaeological record, however, shows few signs of any specialisation among the Neanderthals from their appearance about 250,000 years ago to their disappearance 30,000 years ago. Instead, they did one thing almost to the exclusion of all else: they hunted big game. There are plenty of collections of bones from animals such as reindeer, horses, bison and mammoths that are associated with Neanderthals, but few remains of rabbits or tortoises. There is also little sign of preserved seeds and nuts, or of the specialised grinding stones that would have been needed to process them. And there are no bone awls or needles that would suggest that Neanderthals were skilled leather workers, despite the abundance of animal skins that their hunting would have provided.

Signs of division of labour come only with the arrival of modern humans into Europe around 40,000 years ago. That is when evidence appears of small animals being eaten routinely and plant foods being gathered. It is also when tools designed for sophisticated leather working emerge.

Dr Kuhn and Dr Stiner suggest that division of labour actually originated in a warmer part of the world—Africa seems most likely—where plant foods could be gathered profitably all year round. But as humans brought the idea of division of labour north, the female side of the bargain gave the species a significant advantage by providing fallback foods when big game was scarce and allowing more people to inhabit a given piece of land in times of plenty. Modern human populations grew, Neanderthal populations shrank, and the rest is prehistory.

Of course, the archaeological record cannot prove which sex was doing what, or even if specialisation was determined by sex at all. But almost all known groups of foragers divide men's and women's work the same way, which makes it likely that the same rule applied in the past, and for the same reasons—men tend to be stronger and faster, and women are more likely to be occupied with childcare.

That it was division of labour which gave modern humanity its edge over the Neanderthals is not a completely new idea. A study published last year by Jason Shogren of the University of Wyoming used a

mathematical model to suggest it would work, particularly if combined with trade. But Dr Shogren's thesis was that wimpy, useless hunters were the ones who stayed at home and crafted objects, while the real men went out and killed things. Dr Kuhn and Dr Stiner, by contrast, assign to women the main role in establishing the antecedents of modern economics, and thus launching the process of growth that continues to this day.

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Malaria

Pinning down parasites

Dec 7th 2006
From The Economist print edition

A new map of malaria should help control the disease

Get article background

SOMEONE who lives by statistics would not travel to Myanmar. That country reported 42% of the world's official malaria deaths in 2003, the most recent year for which the World Health Organisation has data. But the statistics in this case are fanciful. Apparently, there were just two malarial deaths in Sri Lanka. The figure for Kenya is 135, a toll that Simon Hay, of the Kenya Medical Research Institute, in Nairobi, expects is about right for one large Kenyan province over a bad month. He believes that more than 1m African children die of malaria each year. But at least Kenya handed in some homework. Half of Africa's countries did not, and dogs ate the homework of 20 of the world's 49 other malarious nations, too.

Dr Hay is intent on improving this sorry state of affairs. He and his colleague Robert Snow are building a global map of the disease's endemic regions, something that was last done by some Russians in 1968. That was the heyday of attempts to stamp out malaria with DDT. From the 1970s until the recent, more moneyed, era of the Global Fund, little of the world's cash and enthusiasm was channelled into the problem. So, while no one was looking, medical chroniclers grew sloppy.

Today's big global-health donors would, justifiably, like a little auditing of the data. As Dr Hay and Dr Snow describe in *PLoS Medicine*, this is vital when it comes to planning appropriate malaria interventions. For example, in places where the disease pops up every few years, an early warning system would have more effect than trying to convince people who hardly ever get bitten that they need to sleep under netting and take antimalarial drugs routinely. Similarly, giving children iron supplements improves their health where there is a low level of malaria, but appears to damage it where the disease is rampant.

If he had his way, the map Dr Hay is building would also chart how something epidemiologists call the basic rate of reproduction, R_0, varies geographically and seasonally. That would help plan interventions more precisely. R_0 describes how many susceptible people, on average, will catch the disease for every person who already has it. In some places where the mosquito that carries malaria has all it needs to thrive—such as plenty of cow-footprint puddles in which to lay its eggs—people can expect more than three malarious bites a day, and malaria's R_0 can be measured in thousands. (The R_0 of smallpox was about five, by comparison, which explains why it was easier to eradicate.)

Using the data from such an ambitious plan as an R_0 map would probably be too complicated for the mid-ranking healthcare officials who would have to do it. Instead, the Malaria Atlas Project, which will release its first, full database in June 2009, will chart those areas where the value of R_0 is high enough for the disease to be permanently present. Neatly, it already displays what data it has for the world's two most troublesome species of the disease in Google Earth, so that health-care officials in poor countries do not need to download any fancy software.

Besides showing where resources should be concentrated, the map may help audit how well money is being spent. Urbanisation, climate change and HIV all correlate with malaria's spread. Predicting how the number of cases would have changed under such external influences if there had been no intervention will help people to judge how useful those interventions were.

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AIDS and malaria

A vicious circle

Dec 8th 2006
From The Economist print edition

Infection with malaria promotes HIV, and vice versa

Get article background

ONE of the most important organisations designed to combat fatal infectious diseases in poor countries goes by the unwieldy name of the Global Fund to Fight AIDS, Tuberculosis and Malaria. The link between the first two is well established. AIDS does not kill directly. Rather, the damage it does to the immune system opens an individual to other infections that would frequently be fought off by a healthy body. Of these, tuberculosis is one of the most important. Some 12% of deaths of people infected with HIV, the virus that causes AIDS, are from tuberculosis, and, conversely, 16% of tuberculosis deaths are AIDS-related. When the Global Fund was set up, however, many observers saw malaria as a politically convenient bolt-on. The disease kills a lot of people—at least 1m a year, although the exact figure is hard to come by (see article)—but there was little obvious medical connection between it and the other two.

No longer. Over the past few years a number of studies have suggested that those who are infected with HIV are more susceptible to malaria, and that the malarial parasite, in turn, raises the number of virus particles in those with HIV. Now, a study published in *Science* by Laith Abu-Raddad of the University of Washington, in Seattle, and his colleagues has tried to put some numbers on the problem.

The study's starting point is that the number of virus particles in the blood of someone infected with HIV increases about ten-fold during an attack of malaria. This seems to be due, paradoxically, to the immune system's response to the malarial parasite. That response produces proteins called cytokines, which have the perverse effect of encouraging HIV to replicate.

The increase in the number of virus particles is transient, and may do little harm to the individual's own long-term prospects, but it does make him (or her) more likely to pass the infection on during sex. Conversely, the damage HIV does to the immune system means that the malarial parasite can more easily breed unchecked. That means people are more susceptible to infection in the first place, and that more parasites are available to be transmitted from person to person by the mosquitoes that spread them.

Dr Abu-Raddad and his colleagues looked at past studies that have attempted to quantify these observations. They came up with a set of numbers (for example, the increased likelihood of an individual transmitting HIV per act of sexual intercourse when he or she is infected with both the virus and the malarial parasite) that can be plugged into a mathematical model they have developed of how, based on other papers, they think the diseases interact. They then applied the model to Kisumu, a part of Kenya that has a high prevalence of both diseases.

The model suggests the peak of the HIV epidemic in Kisumu is 8% higher than it would have been were there no interaction between the diseases, while the peak level of malaria is 13% higher. Moreover, and in contrast to tuberculosis, where the peak lags seven years behind that of HIV, malaria peaked only one year after the peak of the HIV epidemic.

All of which suggests that the decision to include malaria in the HIV-tuberculosis package that the Global Fund deals with was prescient. It also suggests that the people of Africa, in particular, are in even more trouble than they realised.

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Books of the year 2006

Fighting to be tops

Dec 7th 2006
From The Economist print edition

History, politics, science, business, biography, memoir or fiction—there is something for everyone in this round-up of the year's best books

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Biography

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Alexis de Tocqueville: Prophet of Democracy in the Age of Revolution
By Hugh Brogan. *Profile; 704 pages; £30. To be published in America by Yale University Press in March*

The fruit of a lifetime's scholarship by a distinguished British historian of America, the first proper life of Tocqueville in English has all the insight and human richness of great 19th-century fiction. Hugh Brogan rescues Tocqueville from sanctification by the right and contemptuous disregard by the left, giving us back the man, his times and his writing.

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Mellon: An American Life
By David Cannadine. *Knopf; 743 pages; $35. Allen Lane; £30*

Andrew Mellon was probably the least-known and the most under-appreciated of America's great men. The impact that this philanthropist, politician and banking tycoon had on his country was wider and far more beneficial than is generally believed. A superb biography.

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The Life of George Mackay Brown: Through the Eye of a Needle
By Maggie Fergusson. *John Murray; 368 pages; $45 and £25*

Maggie Fergusson carefully lays out the literary world of Scotland's greatest 20th-century poet: the remote Orkney islands where he was born and which he almost never left, their myths and their long history. Stimulating and elegantly written.

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Passionate Minds: The Great Love Affair of the Enlightenment
By David Bodanis. *Crown; 312 pages; $24.95. Little, Brown; £17.99*

Emilie du Châtelet was a more rigorous thinker, a better writer, a cleverer mathematician, a more faithful lover and a far kinder and deeper person than her famous lover, Voltaire. A belated and fascinating treatment of a strangely neglected story by the winner of the 2006 Aventis prize for science writing

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A Royal Affair: George III and his Scandalous Siblings
By Stella Tillyard. *Random House; 384 pages; $26.95. Chatto & Windus; £20*

An intimate account, by the author of the magnificent “Aristocrats”, of how George III’s eight brothers and sisters were every bit as troublesome as the American colonists who plagued his reign.

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Thomas Hardy: The Time-Torn Man
By Claire Tomalin. *Viking; 512 pages; £25. To be published in America by Penguin Press in January*

Fresh from her prize-winning “Pepys”, Claire Tomalin focuses on Thomas Hardy’s poetry as well as his novels and draws the reader deeply into his emotional universe. A model biography.

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History

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Khrushchev’s Cold War: The Inside Story of an American Adversary
By Aleksandr Fursenko and Timothy Naftali. *Norton; 670 pages; $35 and £22.99*

Khrushchev wanted a resolution to the contest over Berlin, yet he chose the most dangerous way possible to force one: via nuclear confrontation in Cuba. Unsettling insights into some of the most dangerous geopolitical crises of the time.

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The Battle for Spain: The Spanish Civil War 1936-1939
By Antony Beevor. *Penguin Press; 352 pages; $17. Weidenfeld & Nicolson; £25*

A quarter-century after he wrote it, Antony Beevor reworks his epic study of the Spanish civil war and challenges many of the conflict’s most enduring myths, including the mystique of the republican cause.

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Twelve Days: The Story of the 1956 Hungarian Revolution
By Victor Sebestyen. *Pantheon; 368 pages; $26. Weidenfeld & Nicolson; £20*

Magisterial account of a doomed uprising whose repercussions still shape today’s Europe. Vividly written with a driving narrative pace, it should become the standard work on the revolution.

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The Wages of Destruction: The Making and Breaking of the Nazi Economy
By Adam Tooze. *Allen Lane; 832 pages; £30. To be published in America by Viking in March*

A highly readable mix of military and strategic history with some welcome insights into the making of economic history.

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The Grand Slave Emporium: Cape Coast Castle and the British Slave Trade
By William St Clair. *Profile Books; 288 pages; £16.99*

Although 100,000 people passed through it each year, Cape Coast Castle, the Ghanaian capital of the British slave trade, was largely unknown to the outside world. A welcome addition to the study of trans-atlantic slave cargoes.

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The Trial of Queen Caroline: The Scandalous Affair that Nearly Ended a Monarchy
By Jane Robins. *Free Press; 384 pages; $27.50. Published in Britain as "Rebel Queen: The Trial of Caroline"; Simon & Schuster; £20*

A young woman weds the Prince of Wales and finds that there are three in the marriage. She seeks solace in the arms of a foreigner, attracts intense media attention, becomes the darling of the people, and after proceedings for divorce, dies suddenly. For sheer entertainment and political theatre, the story of Caroline of Brunswick far outstrips the tale of Diana, Princess of Wales.

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Politics and current affairs

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Dangerous Nation: America's Place in the World from its Earliest Days to the Dawn of the Twentieth Century
By Robert Kagan. *Knopf; 544 pages; $30. Atlantic Books; £25*

An absorbing and eye-opening interpretation of American foreign policy which argues that even before America was a nation its leaders anticipated that it was destined to be the dominant global power. Highly readable and full of information that will be new even to specialists.

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The Looming Tower: Al-Qaeda and the Road to 9/11
By Lawrence Wright. *Knopf; 480 pages; $27.95. Allen Lane; £20*

An impressive addition to the over-crowded world of al-Qaeda studies. Thoughtful and vividly written, this book traces the history of Islamic fundamentalism and brings to life the jihadists who conceived the attack on the twin towers and the officers of the CIA and FBI whose rivalries undermined efforts to thwart it.

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Guantánamo and the Abuse of Presidential Power
By Joseph Margulies. *Simon & Schuster; 322 pages; $25*

A sober, and sobering, look at the policies and practices that have led to the internment of hundreds of men at Guantánamo Bay, without legal rights, and subject to degrading interrogations. Mr Margulies shows how the interrogation techniques echo those used by America's bitterest enemies, the North Koreans, and later the North Vietnamese, on American soldiers.

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The One Percent Doctrine: Deep Inside America's Pursuit of its Enemies Since 9/11
By Ron Suskind. *Simon & Schuster; 384 pages; $27 and £18.99*

A well-written, fast-paced account of the Bush administration's so-called war on terror, filled with fascinating new material on the key figures, including their fighting and feuding.

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Sacred Causes: The Clash of Religion and Politics, from the Great War to the War on Terror
By Michael Burleigh. *HarperCollins; 576 pages; $27.95. HarperPress; £25*

A clever, honest and often funny analysis of the confrontation throughout the 20th century between religion and politics. It will bring comfort to neither the religious nor the secular.

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China Shakes the World: A Titan's Rise and Troubled Future-and the Challenge for America
By James Kynge. *Houghton Mifflin; 288 pages; $25. Weidenfeld & Nicolson; £18.99*

With a fresh perspective and a fine eye for arresting detail, James Kynge brings alive all the complexities, contradictions and characters that are the features of China's whirlwind development.

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In Spite of the Gods: The Rise of Modern India
By Edward Luce. *Doubleday; 352 pages; $26. Little, Brown; £20*

India's strengths lie not in its religious traditions, but in its history of pluralism and the vibrancy of its democracy, argues Edward Luce. A perceptive and witty book that is set to become the definitive generalist's account of India's political, economic and social development and its future prospects.

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The J Curve: A New Way to Understand Why Nations Rise and Fall
By Ian Bremmer. *Simon & Schuster; 320 pages; $26 and £17.99*

How to turn authoritarian regimes into stable, open democracies. Ian Bremmer, whose Eurasia Group advises on political risk, sums up the challenge in a simple graphic that is this year's tipping point.

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Seize the Hour: When Nixon Met Mao
By Margaret MacMillan. *John Murray; 384 pages; £25. To be published in America as "Nixon and Mao: The Week That Changed the World" by Random House in February*

In an impressive follow-up to her magisterial "Paris 1919", Margaret MacMillan presents the grand vision and petty deceits that accompanied Richard Nixon on his visit to China in 1972.

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White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good
By William Easterly. *Penguin Press; 448 pages; $27.95. Oxford University Press; £16.99*

A compelling examination of the failure of foreign aid. William Easterly argues that "big pushes", such as those proposed by Jeffrey Sachs and the UN, never work, and argues instead for a series of "little pushes". You need only look at what drives some of the poorest parts of Africa.

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The Trouble with Africa: Why Foreign Aid Isn't Working

By Robert Calderisi. *Palgrave Macmillan; 256 pages; $24.95. Yale University Press; £18.99*

Robert Calderisi has worked for the World Bank for more than 20 years, and is equally at home in Ouagadougou or Washington. Differing in style, if not in substance, from William Easterly's book on the same subject, Mr Calderisi's is a fluent, deeply personal account of how aid has failed Africa, and how Africa, so often, has managed to fail itself.

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Economics and business

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The Wal-Mart Effect: How the World's Most Powerful Company Really Works-and How It's Transforming the American Economy
By Charles Fishman. *Penguin Press; 304 pages; $25.95. Allen Lane; £12.99*

The store that everyone, except shoppers, loves to hate. This is the best account of one of the most extraordinary business phenomena of our time.

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Myself and Other More Important Matters
By Charles Handy. *William Heinemann; 213 pages; £18.99*

Author of a string of books about organisations and their organisers, Britain's closest equivalent to Peter Drucker turns autobiographical in this charming opportunity for his usual audience of top executives to think not so much "outside the box" as way beyond it.

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Joe Wilson and the Creation of Xerox
By Charles D. Ellis. *John Wiley; 396 pages; $27.95 and £18.99*

Chester Carlson's invention of xerography would never have become the hugely profitable Xerox photocopying business were it not for what Charles Ellis calls the "extreme entrepreneurship" of Joe Wilson. A fine analysis of what Wilson brought to their partnership.

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Mavericks at Work: Why the Most Original Minds in Business Win
By William C. Taylor and Polly LaBarre. *William Morrow; 336 pages; $26.95*

The authors ask five questions of would-be mavericks, each of which focuses on winning the increasingly fierce war for talent. Why should great people join your organisation? Do you know a great person when you see one? Can you find great people who aren't looking for you? Are you adept at teaching great people how your organisation works and wins? Does your organisation work as distinctively as it competes? Food for thought.

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Science and technology

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The Revenge of Gaia: Earth's Climate Crisis and the Fate of Humanity
By James Lovelock. *Basic Books; 176 pages; $25. Allen Lane; £16.99*

In his fourth book about the Gaia theory, James Lovelock, a British scientist, dismisses biomass fuels, wind farms, solar energy and fuel-cell innovations as technologies unlikely to mitigate greenhouse-gas emissions in time to save the planet. An ardent environmentalist takes an unexpected yet well-reasoned stance in favour of nuclear energy as the only energy source capable of meeting our needs in time to prevent catastrophe.

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The God Delusion
By Richard Dawkins. *Houghton Mifflin; 416 pages; $27. Bantam; £20*

Atheists will love Richard Dawkins's incisive logic and rapier wit and theists will find few better tests of the robustness of their faith. Even agnostics, who claim to have no opinion on God, may be persuaded that their position is untenable waffle.

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The Omnivore's Dilemma: A Natural History of Four Meals
By Michael Pollan. *Penguin Press; 464 pages; $26.95. Bloomsbury; £12.99*

The best of a new crop of books that look at the politics, ethics and business of food production.

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The Trouble with Physics: The Rise of String Theory, the Fall of a Science, and What Comes Next
By Lee Smolin. *Houghton Mifflin; 416 pages; £26. Allen Lane; £20*

String theory has dominated theoretical physics for the past 20 years. Unfortunately its promise remains unfulfilled, leading Lee Smolin to conclude that string theory is unscientific; not only that, he regards it as mere conjecture and unworthy of being called a theory at all.

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Fiction and memoirs

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Suite Française
By Irène Némirovsky. *Knopf; 416 pages; $25. Chatto & Windus; £16.99*

A poignant account of an affair that didn't quite happen between a German officer and an unhappy French wife. An epic that lingers, by a woman who died at Auschwitz before she could finish it.

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The Emperor's Children
By Claire Messud. *Knopf; 431 pages; $25. Picador; £14.99*

A comedy of manners set in the months immediately before and after the September 11th 2001 terrorist attacks and involving three bright young things who work in the New York media. The surprise is that such an obvious and overworked cliché can be transformed into so intelligent and unsparing a piece of fiction.

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House of Meetings
By Martin Amis. *Knopf; 288 pages; $23. Jonathan Cape; £15.99*

A bitter love triangle set against the larger bitterness of Stalin's gulags. A stunning marriage of the personal and the public, it marks a welcome return to form for Martin Amis's passionate imagination.

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Everyman
By Philip Roth. *Houghton Mifflin; 192 pages; $24. Jonathan Cape; £10*

Dying as an art form, by the most creative novelist in America today.

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Running for the Hills: Growing Up on My Mother's Sheep Farm in Wales
By Horatio Clare. *Scribner; 288 pages; $24. John Murray; £14.99*

A poetic memoir of an unconventional up-bringing on a Welsh hill farm and a forgiving tribute to two utterly different parents who pay a price for following their hearts. Mud, sweat and tears.

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The Meaning of Night: A Confession
By Michael Cox. *Norton; 672 pages; $25.95. John Murray; £17.99*

A Victorian mystery with a striking beginning: "After killing the red-haired man, I took myself off to Quinn's for an oyster supper." Will appeal to fans of "Jonathan Strange and Mr Norrell" by Susanna Clarke and Michel Faber's "The Crimson Petal and the White".

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The Ruby in her Navel
By Barry Unsworth. *Nan A. Talese; 416 pages; $26. Hamish Hamilton; £17.99*

A search for self-knowledge set in 12th-century Sicily amid Christian-Muslim tension. Surprisingly tender.

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Seven Lies
By James Lasdun. *Norton; 224 pages; $23.95. Jonathan Cape; £14.99*

James Lasdun's new novel opens with a drenching in red wine and ends with the spilling of blood. As in his earlier book, "The Horned Man", an *Economist* book of the year in 2002, "Seven Lies" combines the knuckle-whitening tension of a witty literary thriller with the precision of a surgeon seeking to tease out rotten flesh.

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Wizard of the Crow
By Ngugi wa Thiong'o. *Pantheon; 784 pages; $30. Harvill Secker; £18.99*

In this sprawling farce, Ngugi wa Thiong'o, translating himself from his original Gikuyu having stretched his language as no one else has done, portrays a wizard who brings about the demise of a dictator and gives hope to his country, the mythical Free Republic of Aburiria. Africa in all its splendour, squalor, economic malaise and venality, as portrayed by a theatrical magical realist who now lives in exile. In Africa, big men don't care to be laughed at.

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Culture and digressions

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On Opera
By Bernard Williams. *Yale University Press; 192 pages; $30 and £19.99*

Brilliant essays on Mozart, Verdi, Debussy, Janacek, and, above all, Wagner, by one of Britain's leading philosophers. A wonderful example of how intelligence can illuminate musical appreciation.

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Journey Through Great Britain
By Iqbal Ahmed. *Coldstream; 190 pages; £9.95*

A deceptively simple account of travels in Britain by a Kashmiri immigrant. It shows the British as others see them-not as they think they are.

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Will & Me: How Shakespeare Took Over My Life
By Dominic Dromgoole. *Allen Lane; 304 pages; £17.99. To be published in America by Pegasus Books in May*

The artistic director of Shakespeare's Globe theatre in London raises two fingers to academia, the heritage industry and the genteel tendencies of the Royal Shakespeare Company, and along the way touches both rapture and despair.

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District and Circle
By Seamus Heaney. *Farrar, Straus and Giroux; 96 pages; $20. Faber and Faber; £12.99*

The Irish Nobel laureate's new poetry collection is his best in years.

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The Yellow House: Van Gogh, Gauguin, and Nine Turbulent Weeks in Arles
By Martin Gayford. *Little, Brown; 352 pages; $24.99. Viking; £18.99*

Two more mismatched housemates than Vincent van Gogh and Paul Gauguin would be hard to find. Yet for a while they lived together and did some of their best work, until they fell out. Sunny side down.

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The Cloudspotter's Guide: The Science, History and Culture of Clouds
By Gavin Pretor-Pinney. *Perigee; 304 pages; $19.95. Sceptre; £12.99*

Usually a metaphor for sadness and confusion, clouds are often seen as spoiling the weather, rather than being one of its most lovable and interesting aspects. An endearing and surprising bestseller.

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Casting a Spell: The Bamboo Fly Rod and the American Pursuit of Perfection
By George Black. *Random House; 272 pages; $23.95*

Nothing casts quite like a bamboo fishing rod. The age-old battle between perfectionism and economics as seen through the life of Eustis Edwards and the Perfection, the greatest fly rod ever made.

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Books by Economist writers in 2006

What we wrote

Dec 7th 2006
From The Economist print edition

OUR policy is not to review books by our staff or regular freelance contributors because readers might doubt the independence of such reviews. Some readers, however, have expressed interest in knowing about such books. So here is a list of those published by staff at The Economist Group, and by freelance writers, during 2006. The list will be kept up to date here (which also has details of all staff books in print).

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Twice a Stranger: The Mass Expulsions that Forged Modern Greece and Turkey
By Bruce Clark. *Harvard University Press; 274 pages; $29.95. Granta; £20*

In a little known but pivotal event, Greece and Turkey agreed in 1923 to a massive exchange of religious minorities: Christians were deported from Turkey to Greece and Muslims from Greece to Turkey. This analysis examines the morals of state-sponsored ethnic cleansing and its consequences for the 20th century. By our international editor.

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Woodrow Wilson's Right Hand: The Life of Colonel Edward M. House
By Godfrey Hodgson. *Yale University Press; 372 pages; $35 and £20*

The life of Edward House, Woodrow Wilson's chief political adviser, who played a major part in drafting Wilson's Fourteen Points and the Covenant of the League of Nations, until a disagreement at the Paris peace conference forced him abruptly and prematurely into the shadows. By a regular reviewer on American foreign policy.

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Nasser at War: Arab Images of the Enemy
By Laura James. *Palgrave Macmillan; 256 pages; $69.95 and £45*

Drawing on new Arabic material, this history casts a fresh light on Gamal Abdul Nasser's presidency and the legacy of Egypt's conflict with Israel. By a deputy editor at the Economist Intelligence Unit.

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"Complicity with Evil": The United Nations in the Age of Modern Genocide
By Adam LeBor. *Yale University Press; 326 pages; $25 and £17.99*

An examination of the role of the UN secretariat and its relationship with the Security Council and of individual UN officials in confronting, or failing to confront, mass killing in Rwanda, the Balkans and Darfur, by our Budapest stringer.

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City of Oranges: Arabs and Jews in Jaffa
By Adam LeBor. *Bloomsbury; 357 pages; £18.99. To be published in America by Norton in April*

An account of the transformation of Palestine's second city into a crumbling, semi-derelict and neglected

suburb of Tel Aviv, known best for the 300m oranges it exports each year.

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Giraffe
By J.M. Ledgard. *Penguin Press; 304 pages; $24.95. Jonathan Cape; £16.99*

The slaughter in 1975 of a herd of giraffes at the Dvur Králové zoo in the Czech Republic becomes a metaphor for life under communism in this first novel by our correspondent in Nairobi.

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The Earl of Petticoat Lane
By Andrew Miller. *William Heinemann; 302 pages; £14.99*

A tale of transformation: from impoverished Jewish immigrant to English gent, covering war, love, friendship, marriage, memory and the underwear industry in London's East End. By our Moscow correspondent.

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The Wonga Coup: Guns, Thugs and a Ruthless Determination to Create Mayhem in an Oil-Rich Corner of Africa
By Adam Roberts. *Public Affairs; 304 pages; $26. Profile; £9.99*

A group of foreign mercenaries plotted a coup against an African dictatorship-and how it all went disastrously wrong. By the news editor of Economist.com.

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Ghosts of Spain: Travels Through a Country's Hidden Past
By Giles Tremlett. *Faber and Faber; 436 pages; £16.99. To be published in America by Walker & Co in February*

With the opening of hundreds of mass graves dating from the civil war, our Madrid correspondent examines how Iberians today are confronting history.

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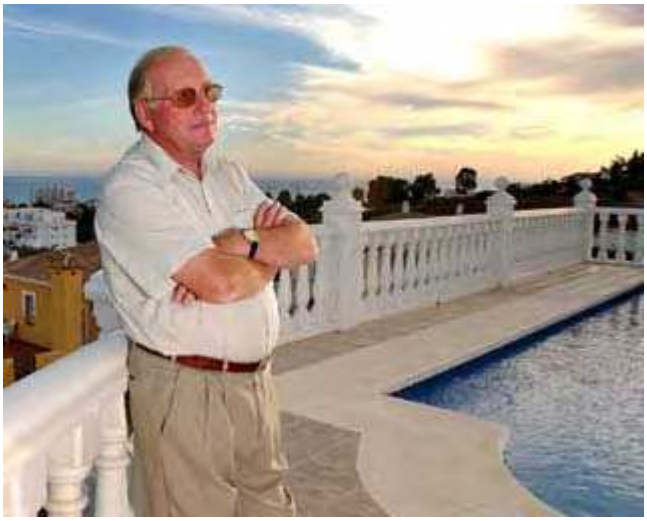
About sponsorship

Allen Carr

Dec 7th 2006
From The Economist print edition

Allen Carr, saviour of smokers, died on November 29th, aged 72

Solarpix



HE COULDN'T remember exactly the reason, whether boredom or curiosity or the need to keep up with the lads, but in 1952 Allen Carr put a little white tube of tobacco in his mouth, lit up and inhaled. He was 18 at the time, and doing his national service. That first taste of smoking was so disgusting that he wondered why on earth he was doing it; but oddly, when the cigarette was finished, he wanted another.

And another. By 1983, when he was a successful accountant living in his mock-Tudor semi in the south London suburbs, he was a 100-a-day man, and counting. His first action on waking was to grab for the box, and a dangling fag was in his mouth all day. Of course, he knew it was no good for him. He had frequent chest infections, and wheezed if he took a brisk walk round the block. Indeed, he coughed just reaching for his lighter from his reeking smoker's bower on the settee.

Giving up seemed impossible. His father, a smoker, died of lung cancer, intimating to his son with his last breath that he really ought to stop; but Mr Carr was barely out of the hospital before he lit up again. When he smoked he felt good, suave, self-confident; when he stopped he felt panicky and dreadful. If he tried to limit himself to one cigarette an hour, he would spend 50 minutes quivering for his next fix. Once he gave up for six months, only to fall back at last on that easy, friendly crutch, the ever-ready packet, “sobbing like a baby”.

On July 15th 1983 a coughing fit induced such a nosebleed that he did not go to work, but lay on the settee with blood dripping down on his encarnadined cigarette. His wife, desperate, packed him off to a hypnotist, who did no good. His son, equally desperate, handed him a book by Christian Barnard, the South African heart-transplant surgeon. And in those pages Mr Carr saw the light. Nicotine leaving the body caused the longing for the next smoke. The weakness and emptiness he needed cigarettes to counter was *caused by the cigarettes themselves*.

St Paul on the road to Damascus, suddenly floored by the spiritual equivalent of a giant Ronson lighter, was as nothing to Mr Carr in Raynes Park. He smoked his last. Stubbing it out, grinding it triumphantly into the ashtray, he cried to his wife that he was going to save the world from smoking. From London SW20 mankind would be set free.

She thought he was mad. But in no time the sitting room was a clinic, with smokers' abandoned ciggie packets piled up like trophies by the brown-tiled fireplace. The clinics spread; by Mr Carr's death there

were 70 of them, in 33 countries. He wrote a book, “The Easy Way to Stop Smoking”, which he had to find the cash to publish himself; it sold more than 7m copies, in 45 languages. An Easyway website spread the creed in Czech, Turkish, Swedish, Japanese. Mr Carr made millions, and went to Malaga.

The great attraction of his scheme was that it avoided pain. In his clinics, having coughed up $400 or so, smokers would sit in a huddled group, reading the Good Book and smoking. Gradually, as they proceeded, the mantra of Mr Carr's words would act like hypnosis. They did not enjoy smoking. It was a foul habit. Nicotine gave them nothing, only a vacancy for which the answer was more nicotine, and if they gave it up they would be making no sacrifice. They would reach the last page—and dash the evil weed underfoot, throw their lighters and packets in a heap on the floor, shout and embrace, cry, exchange addresses. They were non-smokers. They were free, shining and pure.

In hock to tobacco

The medical establishment looked askance at Mr Carr. He had no training, being just an accountant who, in his publicity pose of white shirt and benign expression, managed to appear to have a stethoscope somewhere about his person. Since he had never submitted Easyway to independent trials or evaluation, it was impossible to tell how effective it was. His own estimate of his 12-month success rate varied from 53% to 90%, where the authenticated rate for other treatment programmes was 5-20%, and his estimate of souls saved was a cool 25m. But no one truly knew. Mr Carr lobbied to have Easyway offered on the NHS and endorsed by anti-smoking bodies such as ASH and QUIT, but they ignored him.

He fought back furiously. Clearly ASH and QUIT and the NHS, as well as all the government ministers who would not return his calls, were hand-in-glove with the big conglomerates who made nicotine-replacement pills and gum, and ultimately—since nicotine replacement did not work—with the tobacco companies. He compiled a dossier of nefarious connections, typed it up in a draft of a book called “Scandal”, and offered it free to any national newspaper that would publish it. No one took up his offer. Almost his last act was to write an open letter to Tony Blair about it all.

Lung cancer carried him off, an irony the press enjoyed. He had a tumour the size of a bowling ball. His friends loyally said it was passive smoking that had made him ill. Feistily, he disagreed. It was active smoking, erroneously and foully and recklessly enjoyed when there was nothing to enjoy about it. Smokers should ponder his example, and read his book, and repent.

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Overview

Dec 7th 2006
From The Economist print edition

Having fallen sharply last week, the **dollar** remained fairly steady, hovering around $1.33 to the euro and $1.97 to the pound.

House prices in America rose by 7.7% in the year to the third quarter, according to the Office of Federal Housing Enterprise Oversight. Michigan was the first state to suffer a year-on-year fall in house prices in more than six years. According to the Department of Commerce, private spending on residential construction fell by 9.4% in the year to October.

Revised figures suggest **America's** workers were more productive and less costly last quarter than first thought. Output per hour in businesses, excluding farms, rose at an annual rate of 0.2%, rather than remaining flat as originally estimated. Unit labour costs rose at a yearly pace of 2.3%, not 3.8%.

Japan's economy grew much more slowly in the fiscal year ending March 2006 than previously thought. Annual revisions by the Cabinet Office suggest its GDP increased by 2.4% and not 3.3% as first reported.

Japan's consumer prices rose by 0.4% in October compared with a year earlier. Core inflation, which excludes fresh food and is watched closely by the Bank of Japan, rose by just 0.1%. Japan's unemployment rate fell to 4.1% in October.

Australia's GDP grew at an annual pace of 1.2% in the third quarter.

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Output, demand and jobs

Dec 7th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.2	Q3	+ 1.2	+ 2.6	+ 3.0	– 3.0	Q2	+ 3.2	Q3	4.6	Nov	5.1
Austria	+ 3.2	Q3	+ 3.6	+ 2.8	+ 2.3	+ 5.9	Sep	+ 0.6	Sep	4.7	Nov	5.2
Belgium	+ 3.1	Q3	+ 2.4	+ 2.8	+ 2.0	+ 1.8	Sep	– 2.5	Sep	12.3	Oct†	13.2
Britain	+ 2.7	Q3	+ 2.7	+ 2.6	+ 2.4	+ 0.6	Oct	+ 3.9	Oct	5.6	Sep‡	4.7
Canada	+ 2.5	Q3	+ 1.7	+ 2.8	+ 2.5	– 1.7	Sep	+ 6.0	Aug	6.3	Nov	6.4
Denmark	+ 3.8	Q3	+ 2.5	+ 3.3	+ 2.3	+ 5.1	Oct	+ 0.7	Oct	4.1	Oct	5.4
France	+ 1.9	Q3	nil	+ 2.1	+ 2.0	– 0.7	Sep	+ 2.9	Oct	8.8	Oct	9.7
Germany	+ 2.8	Q3	+ 2.6	+ 2.4	+ 1.5	+ 6.3	Sep	– 0.8	Oct	10.2	Nov§	11.5
Italy	+ 1.7	Q3	+ 1.1	+ 1.7	+ 1.3	+ 1.3	Sep	+ 0.2	Sep	7.0	Q2	7.8
Japan	+ 2.7	Q3	+ 2.0	+ 2.8	+ 2.0	+ 7.4	Oct	– 2.1	Aug	4.1	Oct	4.5
Netherlands	+ 2.6	Q3	+ 2.6	+ 2.7	+ 2.3	+ 1.2	Sep	+ 2.8	Sep	5.5	Oct††	6.5
Spain	+ 3.8	Q3	+ 3.6	+ 3.5	+ 2.9	+ 7.4	Oct	+ 3.0	Oct	8.4	Oct	8.8
Sweden	+ 4.4	Q3	+ 4.1	+ 4.4	+ 3.2	+ 6.0	Sep	+ 9.3	Oct	4.6	Oct†	5.6
Switzerland	+ 2.4	Q3	+ 1.5	+ 2.9	+ 2.1	+ 4.3	Q2	+ 2.3	Sep	3.1	Nov†	3.7
United States	+ 3.0	Q3	+ 2.2	+ 3.3	+ 2.2	+ 4.9	Oct	+ 6.1	Sep	4.4	Oct	4.9
Euro area	+ 2.7	Q3	+ 2.0	+ 2.6	+ 1.9	+ 3.3	Sep	+ 1.1	Oct	7.7	Oct	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 6.6	Q2	+ 7.6	na	na	+ 1.2	Oct	+ 4.4	Oct	7.9	Oct	8.1
Greece	+ 4.3	Q3	na	na	na	– 2.6	Sep	+12.2	Sep	8.8	Q2	9.6
Iceland	+ 2.8	Q2	na	na	na	na		na		1.0	Sep†	1.4
Ireland	+ 5.0	Q2	+ 3.6	na	na	+ 6.0	Sep	+ 3.9	Sep	4.5	Nov	4.5
Luxembourg	+ 5.4	Q2	na	na	na	– 0.2	Aug	+ 0.5	Oct	4.5	Oct	4.4
New Zealand	+ 1.6	Q2	+ 1.7	na	na	+ 0.5	Q2	+ 1.0	Q3	3.8	Q3	3.7
Norway	+ 2.6	Q3	+ 5.2	na	na	– 4.5	Oct	+ 8.3	Oct	3.3	Sep**	4.8
Portugal	+ 0.9	Q2	+ 3.8	na	na	+ 3.5	Oct	– 0.1	Oct	7.4	Q3†	7.7

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Jul-Sep; claimant count rate 3.0% in Oct.
§EU harmonised rate 8.7% in Sep. ††Aug-Oct. **Jul-Sep.

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Prices and wages

Dec 7th 2006
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2006	2007	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.9	Q3	+ 3.0	+ 3.4	+ 2.7	+ 7.9	Q3	+ 6.2	+ 3.9	Q3	+ 6.0
Austria	+ 1.1	Oct	+ 2.0	+ 1.6	+ 1.6	+ 3.5	Nov	+ 0.9	+ 2.7	Oct	+ 2.3
Belgium	+ 1.5	Nov	+ 2.6	+ 2.2	+ 1.9	+ 6.1	Sep	+ 1.4	+ 2.4	Oct	+ 2.3
Britain	+ 2.4	Oct*	+ 2.3	+ 2.3	+ 2.1	+ 1.7	Oct	+ 2.6	+ 3.9	Sep†	+ 4.1
Canada	+ 0.9	Oct	+ 2.6	+ 2.1	+ 2.0	+ 1.2	Oct	+ 1.6	+ 1.1	Aug	+ 1.8
Denmark	+ 1.5	Oct	+ 2.0	+ 1.9	+ 1.9	+ 2.5	Oct	+ 4.3	+ 3.1	Q3	+ 2.8
France	+ 1.1	Oct	+ 1.8	+ 1.9	+ 1.5	+ 2.4	Oct	+ 3.0	+ 2.9	Q3	+ 3.1
Germany	+ 1.5	Nov	+ 2.3	+ 1.7	+ 2.2	+ 3.7	Nov	+ 2.2	+ 0.6	Sep	+ 1.0
Italy	+ 1.8	Nov	+ 2.2	+ 2.2	+ 1.9	+ 4.9	Oct	+ 4.0	+ 3.3	Oct	+ 3.0
Japan	+ 0.4	Oct	– 0.8	+ 0.2	+ 0.5	+ 2.8	Oct	+ 2.1	+ 0.6	Oct	+ 0.4
Netherlands	+ 1.0	Nov	+ 1.8	+ 1.6	+ 1.7	+ 2.1	Oct	+ 4.6	+ 1.9	Oct	+ 0.9
Spain	+ 2.5	Oct	+ 3.5	+ 3.6	+ 2.8	+ 3.4	Oct	+ 4.9	+ 3.1	Q2	+ 3.4
Sweden	+ 1.3	Oct	+ 0.5	+ 1.4	+ 1.8	+ 4.2	Oct	+ 4.1	+ 2.5	Sep	+ 3.5
Switzerland	+ 0.5	Nov	+ 1.0	+ 1.2	+ 1.1	+ 2.3	Oct	+ 1.1	+ 1.0	2005	+ 0.9
United States	+ 1.3	Oct	+ 4.3	+ 3.3	+ 2.1	– 1.6	Oct	+ 5.9	+ 3.9	Oct	+ 3.1
Euro area	+ 1.8	Nov	+ 2.3	+ 2.2	+ 2.1	+ 4.0	Oct	+ 4.2	+ 2.4	Q2	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Oct	+ 0.8	na	na	+ 5.8	Oct	+ 3.3	+ 3.5	Q3	+ 4.0
Greece	+ 2.8	Oct	+ 3.8	na	na	+ 2.3	Oct	+ 6.3	na		na
Iceland	+ 7.3	Nov	+ 4.2	na	na	+12.2	Nov	+ 3.9	+11.0	Oct	+ 6.9
Ireland	+ 3.9	Oct	+ 3.0	na	na	+ 0.1	Oct	+ 0.9	+ 4.1	Q2	+ 3.5
Luxembourg	+ 1.5	Oct	+ 3.1	na	na	+ 9.5	Sep	+ 3.3	+ 0.4	Aug	+ 1.1
New Zealand	+ 3.5	Q3	+ 3.4	na	na	+ 6.9	Q3	+ 6.1	+ 3.2	Q3	+ 3.1
Norway	+ 2.7	Oct	+ 1.8	na	na	+ 5.9	Oct	+10.1	+ 3.8	Q3	+ 2.7
Portugal	+ 2.7	Oct	+ 2.7	na	na	+ 2.6	Oct	+ 4.0	+ 0.8	Sep	– 1.1

*RPI inflation rate 3.7% in Oct. †Jul-Sep.

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Economic forecasts

Dec 7th 2006
From The Economist print edition

December averages (previous month's, if changed)

	Real GDP, % change				Consumer prices		Current account	
	Low/high range		average		% increase		% of GDP	
	2006	2007	2006	2007	2006	2007	2006	2007
Australia	2.3/2.9	2.3/3.7	2.6 (2.7)	3.0 (3.2)	3.4	2.7	−5.5(−5.6)	−5.1 (−5.2)
Austria	1.9/3.3	1.8/2.6	2.8	2.3 (2.1)	1.6 (1.7)	1.6 (1.7)	1.4 (1.1)	1.4 (1.1)
Belgium	2.6/3.0	1.8/2.4	2.8 (2.7)	2.0 (1.9)	2.2	1.9 (2.0)	1.8	2.1 (1.9)
Britain	2.5/2.7	1.8/2.8	2.6	2.4	2.3	2.1 (2.2)	−2.6	−2.7 (−2.8)
Canada	2.8/3.0	2.0/2.9	2.8	2.5	2.1 (2.2)	2.0 (2.1)	1.4	0.8 (0.9)
Denmark	2.8/3.8	1.9/3.0	3.3 (3.1)	2.3	1.9 (2.0)	1.9 (2.0)	2.3 (2.0)	2.2 (1.9)
France	2.0/2.3	1.6/2.5	2.1 (2.3)	2.0	1.9 (1.8)	1.5	−1.6(−1.5)	−1.3 (−1.2)
Germany	2.2/2.8	0.6/2.2	2.4	1.5 (1.4)	1.7	2.2 (2.3)	3.1 (3.6)	3.2 (3.7)
Italy	1.5/1.9	0.9/2.0	1.7	1.3 (1.2)	2.2	1.9	−2.3(−1.8)	−1.9 (−1.7)
Japan	2.7/2.9	1.4/3.0	2.8 (2.7)	2.0 (2.1)	0.2 (0.3)	0.5	3.7 (3.6)	3.7 (3.6)
Netherlands	2.5/3.0	1.6/2.9	2.7	2.3 (2.2)	1.6	1.7	7.3 (6.3)	6.3 (5.7)
Spain	3.3/3.7	2.5/3.2	3.5	2.9 (2.8)	3.6 (3.5)	2.8	−8.2(−8.1)	−8.0 (−7.8)
Sweden	4.0/4.7	2.6/3.7	4.4	3.2 (3.1)	1.4	1.8	6.5 (6.4)	6.1 (5.9)
Switzerland	2.4/3.1	1.5/2.6	2.9	2.1	1.2	1.1 (1.2)	13.8(13.5)	12.9
United States	3.2/3.3	1.6/2.9	3.3	2.2 (2.3)	3.3 (3.4)	2.1 (2.3)	−6.6	−6.4 (−6.5)
Euro area	2.5/2.7	1.5/2.5	2.6	1.9	2.2	2.1	−0.3(−0.4)	−0.1

Sources: ABN AMRO, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Citigroup, Scotiabank, UBS

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances in 15 countries and the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The forecasters now expect both growth and inflation in America to be slightly lower in 2007 than they thought last month: GDP will rise by 2.2% and consumer prices by 2.1%. They are less optimistic about French growth this year (down to 2.1%, from 2.3%) and more sanguine about Germany's prospects in 2007 (growth of 1.5%, up from 1.4%). They think Spain's big current-account deficit will amount to 8% of GDP next year, compared with projections last month that it would narrow more, to 7.8%.

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Money and interest rates

Dec 7th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Dec 6th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+11.4	+13.0	Oct	6.39	5.62	5.92	5.52	5.43	6.66
Britain	+ 5.5	+14.1	Oct	5.23	4.59	4.89	4.49	4.27	5.52
Canada	+14.2	+ 8.6	Oct	4.15	3.31	3.83	3.89	4.11	5.11
Denmark	+ 8.2	+ 9.1	Oct	3.62	2.45	3.70	3.66	3.34	5.07
Japan	+ 0.7	+ 0.7	Oct	0.41	0.02	0.83	1.65	1.52	1.68
Sweden	- 0.6	+10.6	Oct	2.89	1.68	3.51	3.48	3.38	3.80
Switzerland	- 2.3	+ 2.4	Oct	1.97	1.04	2.22	2.33	2.11	2.59
United States	- 0.4	+ 4.8	Oct	5.23	4.23	4.58	4.48	4.52	5.39
Euro area†	+ 6.3	+ 8.5	Oct	3.65	2.45	3.66	3.64	3.37	4.30

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.59%, Japan No. 283 1.64%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.25%, BOJ overnight call 0.25%, BOE repo 5.0%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Dec 7th 2006
From The Economist print edition

2000=100

	Nov 28th	Dec 5th*	% change on one month	% change on one year
Dollar index				
All items	185.5	188.3	+ 0.9	+ 34.8
Food	154.3	153.8	+ 1.9	+ 25.4
Industrials				
All	226.0	232.9	nil	+ 44.0
Nfa†	135.0	137.0	– 0.1	+ 2.3
Metals	275.6	285.2	+ 0.1	+ 61.3
Sterling index				
All items	144.5	144.9	– 2.3	+ 18.9
Euro index				
All items	130.5	130.8	– 3.0	+ 19.3
Yen index				
All items	200.1	201.0	– 1.2	+ 28.2
Gold				
$ per oz	636.08	643.28	+ 2.8	+ 26.8
West Texas Intermediate				
$ per barrel	60.85	62.46	+ 5.9	+ 4.2

*Provisional. †Non-food agriculturals.

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Stockmarkets

Dec 7th 2006
From The Economist print edition

Market indices

	Dec 6th	2006 high	2006 low	% change on one week	% change on record high	Dec 30th 2005 in local currency	Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,453.6	5,461.6	4,708.8	+ 0.4	– 0.1	+15.8	+24.4
Austria (ATX)	4,256.5	4,344.4	3,324.1	+ 3.9	– 2.0	+16.1	+31.1
Belgium (Bel 20)	4,179.0	4,273.8	3,445.1	+ 0.3	– 2.2	+17.7	+32.9
Britain (FTSE 100)	6,090.4	6,254.9	5,506.8	+ 0.1	– 12.1	+ 8.4	+24.4
Canada (Toronto Composite)	12,889.8	12,895.9	10,904.3	+ 1.7	nil	+14.4	+16.5
Denmark (OMXCB)	410.0	410.2	325.0	+ 1.6	– 0.1	+11.5	+25.9
France (SBF 250)	3,799.5	3,900.4	3,244.2	– 0.5	– 13.5	+15.1	+30.0
France (CAC 40)	5,350.6	5,511.5	4,615.4	– 0.6	– 22.7	+13.5	+28.1
Germany (DAX)*	6,369.5	6,476.1	5,292.1	+ 0.1	– 21.0	+17.8	+33.0
Italy (S&P/MIB)	40,482.0	40,862.0	34,850.0	– 0.1	– 19.2	+13.4	+28.0
Japan (Nikkei 225)	16,371.3	17,563.4	14,218.6	+ 1.8	– 57.9	+ 1.6	+ 4.4
Japan (Topix)	1,615.2	1,783.7	1,458.3	+ 2.2	– 44.0	– 2.1	+ 0.6
Netherlands (AEX)	476.4	497.5	412.9	– 1.2	– 32.1	+ 9.1	+23.2
Spain (Madrid SE)	1,538.4	1,564.6	1,156.8	+ 0.3	– 1.7	+33.1	+50.2
Sweden (Affarsvarlden Gen)	343.2	350.5	275.2	+ 0.6	– 14.3	+17.0	+36.8
Switzerland (Swiss Market)	8,509.9	8,835.6	7,154.9	– 0.7	– 3.7	+12.2	+24.0
United States (DJIA)	12,309.3	12,342.6	10,667.4	+ 0.7	– 0.3	+14.9	+14.9
United States (S&P 500)	1,412.9	1,414.8	1,223.7	+ 1.0	– 7.5	+13.2	+13.2
United States (NASDAQ Comp)	2,445.9	2,466.0	2,020.4	+ 0.6	– 51.6	+10.9	+10.9
Europe (FTSEurofirst 300)†	1,440.0	1,473.8	1,238.7	– 0.2	– 15.5	+12.9	+27.5
Euro area (FTSE Euro 100)†	1,240.2	1,270.0	1,050.0	– 0.4	– 20.0	+13.9	+28.6
World (MSCI)‡	1,469.3	1,469.3	1,243.9	+ 1.3	nil	+16.8	+16.8
World bond market (Citigroup)††	674.0	675.0	612.1	+ 1.2	– 0.1	+ 8.7	+ 8.7

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Dec 7th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Dec 6th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Dec 6th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2006‡
Australia	− 10.2 Oct	− 39.5 Q3	− 5.5	− 5.1	119.6	120.0	1.27	1.34	2.50	1.69	1.10	+ 2.5
Austria	− 1.2 Sep	+ 9.2 Q2	+ 1.4	+ 1.4	105.8§	104.9	0.75	0.85	1.48	–	0.65	− 1.3
Belgium	+ 16.0 Sep	+ 6.5 Jun	+ 1.8	+ 2.1	107.5§	106.5	0.75	0.85	1.48	–	0.65	nil
Britain	−144.2 Sep	− 64.4 Q2	− 2.6	− 2.7	103.2	98.8	0.51	0.58	–	0.68	0.44	− 3.0
Canada	+ 53.7 Sep	+ 28.9 Q3	+ 1.4	+ 0.8	124.9	125.8	1.15	1.16	2.26	1.53	1.00	+ 0.9
Denmark	+ 7.7 Sep	+ 7.6 Sep	+ 2.3	+ 2.2	106.7	105.8	5.60	6.35	11.0	7.46	4.87	+ 3.4
France	− 34.9 Sep	− 41.5 Sep	− 1.6	− 1.3	108.4§	107.2	0.75	0.85	1.48	–	0.65	− 2.7
Germany	+187.4 Sep	+107.5 Sep	+ 3.1	+ 3.2	110.2§	108.6	0.75	0.85	1.48	–	0.65	− 2.3
Italy	− 26.4 Sep	− 39.1 Sep	− 2.3	− 1.9	108.1§	106.9	0.75	0.85	1.48	–	0.65	− 4.8
Japan	+ 78.4 Sep	+168.1 Sep	+ 3.7	+ 3.7	80.0	80.3	115	121	226	153	–	− 4.6
Netherlands	+ 38.3 Sep	+ 63.2 Q3	+ 7.3	+ 6.3	108.4§	107.3	0.75	0.85	1.48	–	0.65	− 0.4
Spain	−107.4 Sep	− 98.4 Aug	− 8.2	− 8.0	105.9§	105.1	0.75	0.85	1.48	–	0.65	+ 1.4
Sweden	+ 19.3 Oct	+ 26.2 Q3	+ 6.5	+ 6.1	100.9	95.0	6.80	8.02	13.4	9.06	5.92	+ 2.9
Switzerland	+ 9.2 Oct	+ 55.3 Q2	+13.8	+12.9	105.7	107.1	1.19	1.31	2.35	1.59	1.04	+ 0.2
United States	−849.5 Sep	−838.1 Q2	− 6.6	− 6.4	82.0	88.3	–	–	1.97	1.33	0.87	− 2.3
Euro area	− 24.1 Sep	− 35.3 Sep	− 0.3	− 0.1	120.6	114.9	0.75	0.85	1.48	–	0.65	− 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 11.3 Sep	+ 11.8 Sep	na	na	109.3§	108.0	0.75	0.85	1.48	–	0.65	+ 2.5
Greece	− 40.5 Aug	− 26.8 Sep	na	na	105.0§	104.1	0.75	0.85	1.48	–	0.65	− 2.6
Iceland	− 1.9 Oct	− 3.9 Q3	na	na	86.0**	102.3	68.9	64.9	136	91.8	60.0	+ 4.1
Ireland	+ 37.1 Sep	− 6.0 Q2	na	na	113.7§	112.0	0.75	0.85	1.48	–	0.65	+ 1.0
Luxembourg	− 5.4 Sep	+ 4.2 Q2	na	na	107.5§	106.5	0.75	0.85	1.48	–	0.65	− 1.3
New Zealand	− 4.3 Oct	− 10.2 Q2	na	na	131.1	143.7	1.46	1.42	2.88	1.94	1.27	+ 3.5
Norway	+ 57.7 Oct	+ 56.0 Q3	na	na	108.4	110.0	6.11	6.76	12.0	8.14	5.32	+ 19.3
Portugal	− 22.9 Aug	− 16.8 Sep	na	na	106.0**	105.2	0.75	0.85	1.48	–	0.65	− 4.6

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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Central bank staff, 2006

Dec 7th 2006
From The Economist print edition

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Overview

Dec 7th 2006
From The Economist print edition

Brazil's economy is accelerating. Output grew by 3.2% in the year to the third quarter, up from 1.2% in the year to the second.

China's monthly trade surplus was $23.4 billion in November, only slightly below October's record $23.8 billion. Its annual trade surplus widened to $168.3 billion.

Consumer-price inflation in **Venezuela** rose to 15.8% in the year to November.

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Russia

Dec 7th 2006
From The Economist print edition

Russia is booming. Output has grown by almost 7% a year on average since 1999, as the economy first bounced back from the 1998 financial crisis and then enjoyed high oil prices. The good times may not last, however, according to the OECD's latest economic survey. Burgeoning oil revenues have led to a surge in consumption, but Russia still invests too little to sustain its fast growth over the longer term. The OECD urges Russia to use fiscal policy to offset volatile commodity prices.

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Economy

Dec 7th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+10.4	Q3	+14.7	Oct	+ 1.4	Oct	+168.3	Nov	+160.8	2005	987.9	Sep
Hong Kong	+ 6.8	Q3	+ 5.3	Q2	+ 2.0	Oct	−16.7	Oct	+18.6	Q2	131.2	Oct
India	+ 9.2	Q3	+11.4	Sep	+ 7.3	Oct	−45.0	Oct	−13.2	Q2	160.2	Oct
Indonesia	+ 5.5	Q3	+ 6.2	Aug	+ 5.3	Nov	+38.3	Oct	+ 4.1	Q2	38.4	Oct
Malaysia	+ 5.8	Q3	− 0.8	Oct	+ 3.1	Oct	+28.4	Oct	+20.0	Q2	79.3	Oct
Pakistan	+ 6.6	2006†	+ 7.5	Aug§	+ 8.1	Oct	−12.8	Sep	− 5.0	Q2	11.0	Oct
Philippines	+ 4.8	Q3	− 8.3	Sep	+ 4.7	Nov	− 3.8	Sep	+ 4.3	Jun	19.4	Oct
Singapore	+ 7.2	Q3	+ 1.5	Oct	+ 0.4	Oct	+35.0	Oct	+39.0	Q3	135.3	Nov
South Korea	+ 4.6	Q3	+ 4.6	Oct	+ 2.2	Nov	+16.7	Nov	+ 4.0	Oct	229.5	Oct
Taiwan	+ 5.0	Q3	+ 1.1	Oct	+ 0.2	Nov	+22.0	Nov	+26.3	Q3	265.1	Nov
Thailand	+ 4.7	Q3	+ 5.4	Oct	+ 3.5	Nov	− 0.1	Oct	+ 2.0	Oct	60.7	Oct
Argentina	+ 7.9	Q2	+ 7.3	Oct	+10.0	Nov	+11.6	Oct	+ 7.4	Q2	28.0	Oct
Brazil	+ 3.2	Q3	+ 1.3	Sep	+ 3.3	Oct	+45.4	Nov	+14.0	Oct	78.2	Oct
Chile	+ 2.9	Q3	+ 4.7	Oct	+ 2.1	Nov	+21.2	Oct	+ 5.2	Q3	17.5	Oct
Colombia	+ 6.0	Q2	+14.9	Sep	+ 4.3	Nov	+ 0.4	Sep	− 2.2	Q2	15.0	Oct
Mexico	+ 4.6	Q3	+ 5.0	Sep	+ 4.3	Oct	− 5.8	Oct	− 1.3	Q3	82.4	Sep
Peru	+ 7.4	Sep	+ 9.9	Aug	+ 1.5	Nov	+ 8.0	Sep	+ 1.8	Q3	14.5	Sep
Venezuela	+10.2	Q3	+12.7	Aug	+15.8	Nov	+36.8	Q3	+29.7	Q3	27.2	Sep
Egypt	+ 5.9	Q1	+ 4.0	2005†	+11.8	Oct	−11.2	Q1	+ 2.1	Q1	25.7	Nov
Israel	+ 4.8	Q3	+ 6.2	Sep	− 0.2	Oct	− 7.6	Oct	+ 5.8	Q2	27.5	Oct
Saudi Arabia	+ 6.6	2005‡	na		+ 2.2	Aug	+125.6	2005	+90.0	2005	24.9	Sep
South Africa	+ 4.5	Q3	+ 7.5	Oct	+ 5.4	Oct	− 8.7	Oct	−13.3	Q2	22.1	Oct
Czech Republic	+ 6.2	Q2	+ 5.8	Sep	+ 1.3	Oct	+ 1.8	Oct	− 5.2	Q3	31.3	Nov
Hungary	+ 3.6	Q3	+10.6	Oct	+ 6.3	Oct	− 3.1	Sep	− 7.6	Q2	20.7	Oct
Poland	+ 5.8	Q3	+14.6	Oct	+ 1.2	Oct	− 3.8	Sep	− 5.9	Sep	45.2	Oct
Russia	+ 7.4	Q2	+ 5.4	Oct	+ 9.1	Nov	+142.7	Sep	+101.4	Q3	265.0	Oct
Turkey	+ 7.5	Q2	+ 4.0	Sep	+ 9.9	Nov	−52.7	Oct	−32.6	Sep	57.5	Oct
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.6	Q3	+ 1.8	Sep	+ 3.7	Oct	− 3.0	Aug	− 2.0	Sep	2.4	Sep
Latvia	+10.9	Q2	+ 2.5	Sep	+ 5.6	Oct	− 4.4	Sep	− 3.4	Sep	3.9	Sep
Lithuania	+ 6.3	Q3	na		+ 3.6	Oct	− 4.6	Sep	− 2.8	Sep	4.3	Sep
Slovakia	+ 9.8	Q3	+ 9.7	Sep	+ 3.7	Oct	− 3.3	Sep	− 5.0	Jul	12.6	Sep
Slovenia	+ 4.9	Q2	+ 7.5	Sep	+ 1.5	Oct	− 1.8	Sep	− 0.9	Sep	7.5	Aug

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Dec 7th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Dec 6th		Dec 30th 2005	
	Dec 6th	year ago	Dec 6th	% a year		one week	in local currency	in $ terms
China	7.82	8.08	15.4	3.04	2,266.3	+5.0	+ 85.6	+ 91.5
Hong Kong	7.77	7.75	15.3	4.02	19,026.4	+1.3	+ 27.9	+ 27.6
India	44.7	46.2	88.1	6.67	13,949.0	+2.4	+ 48.4	+ 49.5
Indonesia	9,120	9,835	17,967	10.00	1,784.4	+4.1	+ 53.5	+ 65.6
Malaysia	3.55	3.78	6.99	3.73	1,098.4	+3.2	+ 22.1	+ 30.0
Pakistan	60.9	59.8	120	10.29	10,678.0	+0.8	+ 11.7	+ 9.8
Philippines	49.5	53.8	97.5	6.13	2,797.8	+1.9	+ 33.5	+ 43.0
Singapore	1.54	1.69	3.03	3.38	2,895.0	+2.4	+ 23.3	+ 33.2
South Korea	916	1,035	1,805	4.70	1,413.7	- 0.6	+ 2.5	+ 13.1
Taiwan	32.3	33.5	63.6	1.84	7,693.3	+2.9	+ 17.5	+ 19.5
Thailand	35.7	41.3	70.2	5.25	746.2	+1.4	+ 4.5	+ 20.2
Argentina	3.06	2.99	6.02	10.56	1,976.1	+0.8	+ 28.0	+ 26.8
Brazil	2.15	2.18	4.23	13.19	43,096.0	+2.7	+ 28.8	+ 40.0
Chile	525	511	1,035	5.16	11,777.6	+0.9	+ 27.9	+ 24.7
Colombia	2,281	2,274	4,493	6.47	10,523.4	+2.3	+ 10.6	+ 10.9
Mexico	10.9	10.4	21.4	7.04	25,615.9	+3.4	+ 43.9	+ 40.9
Peru	3.21	3.41	6.33	4.48	11,849.0	+4.0	+146.7	+163.4
Venezuela	3,111§	2,550§	6,128	10.00	45,245.5	+4.0	+121.8	+ 84.4
Egypt	5.72	5.75	11.26	9.47	58,339.6	+1.5	+ 5.4	+ 5.8
Israel	4.20	4.63	8.27	5.14	934.9	- 0.2	+ 12.9	+ 23.9
Saudi Arabia	3.75	3.75	7.39	5.09	7,906.3	- 5.0	- 52.7	- 52.7
South Africa	7.11	6.33	14.0	8.60	23,946.5	+1.1	+ 32.3	+ 18.1
Czech Republic	21.0	24.7	41.4	2.57	1,599.8	+2.6	+ 8.6	+ 27.2
Hungary	192	217	378	8.15	23,414.2	+1.0	+ 12.7	+ 25.6
Poland	2.86	3.28	5.64	4.20	52,019.9	+3.2	+ 46.1	+ 66.3
Russia	26.2	29.0	51.6	11.00	1,836.9‡	+4.1	+ 48.7	+ 63.2
Turkey	1.44	1.36	2.84	19.77	38,184.8	+0.3	- 4.0	- 10.1
EM (MSCI)*	1.00	1.00	1.97	na	891.3	+2.9	+ 26.2	+ 26.2
EMBI+†	1.00	1.00	1.97	na	406.2	+0.9	+ 10.2	+ 10.2

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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